

**THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under FSMA, if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you sell or have sold or otherwise transferred all of your Ordinary Shares before the Ex-entitlement Date, please forward this Prospectus and the Form of Proxy (and, if you are a Qualifying non-CREST Shareholder, the Application Form which, subject to certain exceptions, you are being sent) to the purchaser or transferee or the stockbroker, bank or other agent through whom the sale or transfer is/was effected for onward transmission to the purchaser or transferee. If you have sold or transferred part of your registered holding of Ordinary Shares, please contact immediately your stockbroker, bank or other agent through whom the sale or transfer was effected and, for Qualifying non-CREST Shareholders, refer to the instructions regarding split applications set out in the Application Form. However, this Prospectus and, if relevant, the accompanying Application Form should not, subject to certain exceptions, be sent in or into the United States or any of the other Excluded Jurisdictions or any other jurisdiction where to do so would or might contravene local securities laws or regulations.

This Prospectus comprises (i) a circular prepared in compliance with the Listing Rules for the purposes of the General Meeting convened pursuant to the notice of general meeting contained at the end of this document; and (ii) a prospectus relating to the Issue prepared in accordance with the Prospectus Rules, both made under section 73A of FSMA. This Prospectus has been approved as a prospectus by the FSA (as the competent authority in the United Kingdom) in accordance with section 85 of FSMA and has been filed with the FSA in accordance with Rule 3.2 of the Prospectus Rules.

Application has been made to the UK Listing Authority and the London Stock Exchange for up to £25 million in nominal value of CULS to be issued in connection with the Issue to be admitted to the standard debt segment of the Official List and to trading on the London Stock Exchange's Main Market. It is expected that Admission of up to £25 million nominal of CULS will become effective, and dealings therein will commence, on 29 March 2011.

Winterflood Securities, which is authorised and regulated by the FSA, acting through its division, Winterflood Investment Trusts, is acting for Standard Life UK Smaller Companies Trust plc and for no-one else and will not be responsible to anyone other than Standard Life UK Smaller Companies Trust plc for providing the protections afforded to customers of Winterflood Securities or for providing advice in relation to the Issue or any other matter referred to in this Prospectus.

The Company and the Directors of the Company, whose names are set out on page 20 of this Prospectus, accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company and its Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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## Standard Life UK Smaller Companies Trust plc

*(Incorporated in Scotland under the Companies Act 1985 with registered number SC145455;  
an investment company under section 833 of the Companies Act 2006)*

### Issue of up to £25 million nominal of 3.5 per cent. Convertible Unsecured Loan Stock 2018 ("CULS") at 100p per £1 nominal unit and Notice of General Meeting

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Notice of the General Meeting of the Company, to be held at 11.00 a.m. on 28 March 2011 at 1 George Street, Edinburgh EH2 2LL to consider and, if thought fit, to pass the Resolution, is set out at the end of this document. A Form of Proxy is enclosed for use by Shareholders in connection with this meeting. To be valid, Forms of Proxy, completed in accordance with the instructions thereon, must be received by the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY as soon as possible and, in any event, by no later than 11.00 a.m. on 24 March 2011. If you hold your Ordinary Shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction to the Company's registrars, Computershare Investor Services PLC (CREST participant 3RA 50), so that it is received by no later than 11.00 a.m. on 24 March 2011. Completion of a Form of Proxy will not preclude the Shareholder from attending and voting at the General Meeting should the Shareholder so wish.

Applications for CULS pursuant to the Open Offer by Qualifying non-CREST Shareholders may only be made on the accompanying Application Form which, pursuant to the Open Offer, is personal to the Qualifying Shareholder(s) named thereon and may not be sold, assigned or transferred except to satisfy *bona fide* market claims pursuant to the rules of the London Stock Exchange. Qualifying CREST Shareholders (none of whom will receive an Application Form) will receive a credit to their appropriate stock accounts in CREST in respect of the Open Offer Entitlements and Excess CREST Open Offer Entitlements which will be enabled for settlement on 3 March 2011.

The latest time and date for acceptance and payment under the Open Offer is expected to be 11.00 a.m. on 23 March 2011. The procedure for application and payment is set out in paragraphs 5.1 and 5.2 of Part 4 of this document and, where relevant, in the enclosed Application Form.

This document is to be read in conjunction with all documents which are deemed to be incorporated by reference and should be read in its entirety before making any investment decision. In particular, your attention is drawn to pages 7 to 10 of this document, which set out the material risk factors associated with an investment in securities of the Company.

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## SUMMARY

This summary should be read as an introduction to the full text of this document. Any decision to invest in securities of the Company should be based on consideration of the full text of this document as a whole.

Where a claim relating to the information contained in this document is brought before a court, a plaintiff investor may, under the national legislation of an EEA state, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches to the Company and its Directors who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this document.

### **Background to the Placing and Open Offer**

The Company is an investment trust which was launched in 1993 and its assets are managed by Standard Life Investments. The Company's capital structure currently comprises only Ordinary Shares which are listed on the Official List with a Premium Listing and are admitted to trading on the Main Market.

The Company is proposing to raise up to £25 million through a Placing and Open Offer of CULS. The Board believes that introducing structural gearing which will replace the existing Bank Facility which is repayable this year, will further enhance the Manager's ability to increase capital returns. The net proceeds of the Issue will therefore be used to repay the existing Bank Facility and the balance will be able to be invested by the Manager in accordance with the Company's investment policy without any change in the Company's approach to investing in UK small cap opportunities.

Qualifying Shareholders will have the opportunity to subscribe for up to £12.5 million of CULS under the Open Offer on a pre-emptive basis. Qualifying Shareholders will also be able to apply for an amount in excess of their Open Offer Entitlements up to a maximum amount equal to 100 per cent. of their Open Offer Entitlement, subject to CULS being available once all of the applications for *pro-rata* entitlements under the Open Offer have been taken into account.

Winterflood Securities has conditionally placed £25 million of CULS available under the Issue, including the £12.5 million of CULS that is available under the Open Offer, with institutional investors and private client stockbrokers at the Issue Price, subject to clawback in respect of valid applications made by Qualifying Shareholders under the Open Offer including the Excess Application Facility.

### **Benefits of the Placing and Open Offer**

The Directors believe that the Placing and Open Offer will have the following advantages:

- the Company will be provided with access to additional investable funds with a coupon of 3.5 per cent. per annum which is competitive compared to other forms of gearing that the Company might have employed;
- the Issue will provide capital protection to CULS Holders through repayment at par and is substantially covered by the net assets of the Company, being more than 5 times covered based on an Issue of £25 million of CULS and net assets of £138.5 million at 28 February 2011;
- following any conversion of the CULS, the Company would have an increased number of Ordinary Shares in issue which should in due course, enhance the liquidity in the market for the Company's Ordinary Shares; and
- following any conversion of the CULS, the capital base of the Company would increase, allowing operating costs to be spread across a larger number of Ordinary Shares and this should cause the total expense ratio to fall.

### **Conditions to the Issue**

The Issue is conditional, *inter alia*, upon:

- the passing of the Resolution without any amendment;

- the Minimum Net Proceeds of £20 million being raised under the Issue by 29 April 2011 (or such lower amount as the Company and Winterflood Securities may agree in writing);
- the Placing Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms; and
- Admission becoming effective no later than 8.00 a.m. on 29 March 2011 (or such later date as the Company and Winterflood Securities may agree, not being later than 29 April 2011).

In the event that these conditions are not satisfied, the Issue will not proceed. Any application monies which have been received will be returned (at the applicant's sole risk) without payment of interest, as soon as possible thereafter.

### **Costs of the Issue**

If the Issue is subscribed for in full, the costs of the Issue, which will be borne by the Company, are expected to be approximately 0.4 per cent. of the Company's net assets as at 28 February 2011.

### **Further CULS Issue**

The Board may, in its absolute discretion, consider whether to issue up to a further £5 million of CULS under the Further CULS Issue in the period up to the first anniversary of the date of this document. Any further CULS will be issued on or around the prevailing market price of CULS at the time of issue provided it is at a premium to the nominal value of £1. These further CULS will rank *pari passu* with the CULS to be issued in connection with the Issue. Any further issues will be dependent on demand for CULS in the market and the Board being able to issue them at a price that will cover any costs of the issue and not be dilutive to the value of the existing Shareholders' interests. The Directors will also take into account the gearing level of the Company before deciding to issue any further CULS. Any premium in the prices paid over nominal value (after deducting any costs of the issue) will be for the benefit of the Company. There can be no guarantee that the Company will issue further CULS and any Further CULS Issue will be carried out on the basis of a prospectus published by the Company at the time of any such Further CULS Issue.

### **Details of the CULS**

The interest rate on the CULS will be 3.5 per cent. per annum, payable semi-annually in arrears on 30 September and 31 March in each year (with the first interest payment on 30 September 2011), in respect of the period from (and including) the date of Admission of the CULS (anticipated to be 29 March 2011) to (but excluding) the date of final repayment of the CULS (anticipated to be 31 March 2018).

CULS Holders will be entitled to convert their CULS into Ordinary Shares every six months from 30 September 2011 until 31 March 2018. The initial Conversion Price will be set at a 10 per cent. premium to the (unaudited) NAV per Ordinary Share on 23 March 2011 (the "Conversion NAV"). The Company will announce the initial Conversion Price to a Regulatory Information Service ("RIS") as soon as practicable following its calculation.

If, at any time after 31 March 2016, the middle market price of the Ordinary Shares is 30 per cent. or more above the Conversion Price for at least 20 dealing days during a period of 30 consecutive dealing days, the Company will be able to require CULS Holders to redeem their CULS at par. In such event, CULS Holders would be given a final opportunity to convert their CULS into Ordinary Shares.

Following conversion of 80 per cent. or more of the CULS originally issued and any further CULS forming a single series therewith and on any subsequent conversion date, the Company will be entitled to require remaining CULS Holders to convert their outstanding CULS into Ordinary Shares after they have been given an opportunity to have their CULS redeemed.

The Trust Deed constituting the CULS will not contain any restriction on borrowings (including borrowings ranking ahead of the CULS), the disposal of assets or the creation of charges by, or changes in, the nature of the business of the Company or any subsidiary of the Company.

On a winding-up of the Company, the nominal amount of the CULS will rank ahead of the Ordinary Shares, but be subordinated to the Company's borrowings and other creditors.

Any CULS not previously redeemed, purchased or converted will be repaid by the Company on 31 March 2018 at their nominal amount.

### **Investment policy**

The Company will continue to apply its current investment objective, namely to achieve long-term capital growth through investment in UK quoted smaller companies.

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK quoted smaller companies. The portfolio will normally comprise around 50 individual holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5 per cent. of total assets at the time of acquisition.

The Investment Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management and dealing. The investment process is research intensive and is driven by the Investment Manager's distinctive "focus on change" which recognises that different factors drive individual stocks and markets at different times in the cycle. This flexible, but disciplined, process ensures that the Investment Manager has the opportunity to perform in different market conditions.

In connection with the Issue, the Company proposes to amend its investment policy in order to increase the Company's gearing limit from 20 per cent. to 25 per cent. of its net assets at the time of drawdown. The maximum level of gearing of 100 per cent. of net assets at the time of drawdown will remain unchanged. The Company also proposes to amend its investment policy to state that the Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating investment risks in its investments in order to protect the Company's portfolio).

### **Discount policy**

It is the Company's current policy to offer Shareholders, on a six monthly basis on 30 June and 31 December of each year, the opportunity to exit some or all of their investment in the Company.

Subject to certain limitations set out below, the Directors intend to continue to invite Shareholders to tender for purchase for cash all or part of their holdings of Ordinary Shares. The price at which Shares will be purchased will be an amount equal to 98 per cent. of the realisation value of the assets attributable to the shares tendered as at the close of business on the relevant periodic tender offer calculation date. The realisation value is the NAV per Ordinary Share on the relevant tender offer calculation date less the costs of the tender offer which for the avoidance of doubt includes portfolio realisation costs, advisory fees, VAT and stamp duty.

In the light of the Company assuming structural gearing through the issue of the CULS, the Board may, after taking into account the outcomes of previous periodic tender offers and the then current rating of the Ordinary Shares, amend the provisions of the periodic tender offers to protect continuing Shareholders' interests. In carrying out any periodic tender offers the Board will give careful consideration to the future cashflows and the gearing levels of the Company as well as any amount the Board resolves to commit to future investment opportunities. In addition the Board will seek to ensure that Shares are only bought back by the Company at prices which are in the best interests of all Shareholders.

The Board was also given the authority to buy back up to 14.99 per cent. of the Company's issued share capital on 12 October 2010 (being the date of the Company's last annual general meeting).

### **Investment performance**

Since Standard Life Investment's appointment as investment manager in 2003, the Company has been one of the top ranking UK smaller company investment trusts and has significantly outperformed its smaller company benchmark, the Hoare Govett Smaller Companies (ex investment companies) capital return index.

As at 28 February 2011 (the latest practicable date prior to the publication of this document), the Company's unaudited net assets were £138.5 million, as compared with the audited net assets at 30 June 2010 (the Company's most recent financial year-end) of £97.3 million and the unaudited net

assets at 31 December 2010 (being the end of the last financial period of the Company for which half yearly financial information has been published) of £132.5 million. The net assets of the Company have increased by 36.2 per cent. over the six months ended 31 December 2010.

### **General meeting**

The Issue is subject to the passing of the Resolution at the General Meeting which has been convened for 11.00 a.m. on 28 March 2011. Notice of the General Meeting is set out at the end of this document.

### **Principal risk factors**

A summary of the principal risk factors relating to the Company, the Ordinary Shares and the CULS which are known to the Directors is set out below.

The market price of the CULS will be influenced by a number of factors, including the supply of, and demand for, CULS; the price, NAV per Share and dividend yield of the Ordinary Shares; prevailing interest rates; market conditions; and general investor sentiment. There can be no guarantee that the market price of the CULS will fully reflect any value inherent in their convertibility into Ordinary Shares.

On a winding-up of the Company, the nominal amount of the CULS will rank ahead of the Ordinary Shares but will be subordinated to the Company's borrowings and other creditors.

When any CULS convert into Ordinary Shares at a time when the NAV per Ordinary Share is greater than the Conversion Price, there will be NAV per Ordinary Share dilution for existing Ordinary Shareholders. This potential dilution may impact on the market price of Ordinary Shares.

The past performance of the Company is not necessarily indicative of its future performance. There is no guarantee that the Company's investment objectives will be achieved.

Securities of the Company are designed to be held over the long-term and may not be suitable as short-term investments. There can be no guarantee that any appreciation in the value of the Company's investments will occur, and investors may not get back the full value of their investment.

The Company may borrow funds, which will include the issue of CULS, for the purpose of purchasing securities in accordance with its published investment policy. This may provide an opportunity for greater growth in the net assets of the Company and greater capital appreciation in the value of the Ordinary Shares, but at the same time it increases the exposure of the Company and Ordinary Shareholders to the risk of capital loss.

The dividends paid to Ordinary Shareholders depend, *inter alia*, on the income return on the Company's investment portfolio and on the Company's capital structure and gearing; they may therefore vary over time.

Smaller companies can be expected, in comparison to larger companies to have less mature businesses, a more restricted depth of management and a higher risk profile. The risks attached to smaller companies include lack of liquidity, volatility and generally less diversity and resources than larger companies.

## RISK FACTORS

The risk factors set out below are those which are considered by the Directors to be the material risks as at the date of this document only but are not the only risks relating to the Company, the Ordinary Shares or the CULS. Additional risks and uncertainties relating to the Company, the Ordinary Shares or the CULS that are not currently known to the Directors, or that the Directors do not currently consider to be material, may also have a material adverse effect on the Company, the Company's financial condition, its investment performance or on the Ordinary Shares or the CULS. Potential investors should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

Investors should consider the following material risk factors in relation to the Company, the Ordinary Shares and the CULS.

### General

The past performance of the Company is not necessarily indicative of its future performance. There is no guarantee that the Company's investment objectives will be achieved.

Securities of the Company are designed to be held over the long-term and complementary to existing investments in a range of other financial assets and should not form a major part of an investment portfolio. There can be no guarantee that any appreciation in the value of the Company's investments will occur, and investors may not get back the full value of their investment.

The value of the securities of the Company and income derived from them (if any) can go down as well as up. There is no guarantee that the market price of such securities will fully reflect their underlying net asset value.

An investment in the Company is suitable only for investors who are capable of evaluating the risks and merits of such an investment and who have sufficient resources to bear any loss which might result from such an investment.

If the Issue does not proceed, the Company may refinance its existing Bank Facility when it becomes repayable on 13 October 2011. If the Company is not able to or does not wish to refinance its existing Bank Facility it will be repaid by the Company realising certain of its investments. As a result the Company may not have a geared exposure to the stock market which may reduce the growth in the net asset value per Share.

### CULS

The market price of the CULS will be influenced by a number of factors, including the supply of, and demand for, CULS; the price, NAV per Share and dividend yield of the Ordinary Shares; prevailing interest rates; market conditions; and general investor sentiment. There can be no guarantee that the market price of the CULS will fully reflect any value inherent in their convertibility into Ordinary Shares.

Although the CULS will be listed on the Official List with a Standard Listing and admitted to trading on the Main Market, it is possible that there may not be a liquid market in the CULS, and investors may have difficulty in selling them.

On a winding-up of the Company, the nominal amount of the CULS will rank ahead of the Ordinary Shares but will be subordinated to the Company's borrowings and other creditors. Therefore, the rights and remedies available to the Trustee and CULS Holders may be limited by applicable winding-up, insolvency, re-organisation, moratorium or similar provisions relating to or affecting creditors' rights generally.

If, at any time after 31 March 2016, the middle market price of the Ordinary Shares is 30 per cent. or more above the Conversion Price for at least 20 dealing days during a period of 30 consecutive dealing days, the Company will be able to require CULS Holders to redeem their CULS at par. In such event, CULS Holders would be given a final opportunity to convert their CULS into Ordinary Shares. Following conversion of 80 per cent. or more of the CULS originally issued and any further CULS forming a single series therewith and on any subsequent conversion date, the Company will be entitled to require remaining CULS Holders to convert their outstanding CULS into Ordinary Shares after they

have been given an opportunity to have their CULS redeemed. If either of these situations were to occur, CULS Holders would not be able to hold their CULS until the final maturity date of the CULS of 31 March 2018 and to have their CULS redeemed for cash on that date.

The Trust Deed constituting the CULS will not contain any restriction on borrowings (including borrowings ranking ahead of the CULS), the disposal of assets or the creation of charges by, or changes in, the nature of the business of the Company or any subsidiary of the Company. In addition, the Trust Deed will not contain any provision giving CULS Holders any right of redemption on a take over of the Company or on a demerger (although in each case CULS Holders will have a right to exercise their Conversion Rights).

Any further issues of CULS, of up to £5 million in nominal value issued under the Further CULS Issue in the period up to the first anniversary of the date of this Prospectus, will be dependent on demand for CULS in the secondary market and the ability to issue further CULS at a price that will cover any costs of issue and not be dilutive to the value of existing investors' interests. There can be no guarantee that the Company will issue further CULS.

### **Ordinary Shares**

The price of shares in an investment trust is influenced by the interaction of supply and demand for such shares in the secondary market as well as by their net asset value.

The price of an Ordinary Share can fluctuate and may represent a discount or premium to its net asset value. This discount or premium is likely to vary over time, as the supply and demand for Ordinary Shares changes. This can mean that the price of an Ordinary Share can fall when the net asset value of an Ordinary Share rises and vice versa.

When any CULS convert into Ordinary Shares at a time when the NAV per Ordinary Share is greater than the Conversion Price, there will be NAV per Ordinary Share dilution for existing Ordinary Shareholders. This potential dilution may impact on the market price of Ordinary Shares.

Sales of a substantial number of shares in an investment trust, or the perception that such sales might occur, could depress the market price of the Shares.

Although the Ordinary Shares are listed on the Official List with a Premium Listing and admitted to trading on the Main Market, it is possible that there may not be a liquid market in the Ordinary Shares and Shareholders may have difficulty selling them.

Shareholders, including those who apply for up to their full entitlements under the Open Offer, will suffer a reduction in their proportionate ownership and voting interest in the ordinary share capital of the Company as represented by their holding of Ordinary Shares upon conversion of the CULS.

The Company has no current plans for a subsequent offering of its Ordinary Shares or of rights or invitations to subscribe for Ordinary Shares. However, it is possible that the Company may decide to offer additional Ordinary Shares in the future. An additional offering of Ordinary Shares by the Company, significant sales of Ordinary Shares by major Shareholders in the Company or the public perception that a new issue may occur could have an adverse effect on the market price of the Ordinary Shares.

The dividends paid to Ordinary Shareholders depend, *inter alia*, on the income return on the Company's investment portfolio and on the Company's capital structure and gearing; they may therefore vary over time.

In the event of a winding-up of the Company, the Ordinary Shares will rank behind any creditors or prior ranking capital of the Company, including the CULS.

### **The Company's investments**

The Company invests in the securities of UK smaller quoted companies, including companies traded on AIM.

Smaller companies can be expected, in comparison to larger companies, to have less mature businesses, a more restricted depth of management and a higher risk profile.



As smaller companies do not generally have the financial strength, diversity and resources of larger companies, they may find it more difficult to overcome periods of economic slowdown or recession. In addition, the relatively small market capitalisation of such companies can make the market in their shares illiquid. Therefore prices of smaller capitalisation stocks are often more volatile than prices of larger capitalisation stocks and the risk of bankruptcy of many smaller companies (with the attendant losses to investors) is higher. Furthermore, in certain circumstances, particularly in times of economic slowdown or recession, smaller companies may be more likely to reduce their dividends. In such circumstances, Shareholders may receive a reduced dividend from the Company or may not receive any dividend at all.

The Company may invest in securities that are not readily tradable or may accumulate investment positions that represent a significant multiple of the normal trading volumes of an investment, which may make it difficult for the Company to sell its investments and may lead to volatility in the market price of Shares in the Company. Investors should not expect that the Company will necessarily be able to realise, within a period which they would otherwise regard as reasonable, its investments and any such realisations that may be achieved may be at a considerably lower price than prevailing indicative market prices.

There can be no guarantee that any realisation of an investment will be on a basis which necessarily reflects the valuation of that investment.

### **Economic conditions**

Changes in economic conditions, including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and other factors could substantially and adversely affect the Company's prospects.

### **Gearing**

The CULS will, following the Issue, provide gearing for the Company. While the use of gearing should enhance the total return on the Shares where the return on the Company's underlying assets is rising and exceeds the costs associated with the gearing, it will have the opposite effect where the return on the Company's underlying assets is rising at a lower rate than the costs associated with the gearing or falling, further reducing the total return on the Shares.

The Company may borrow funds, which will include the issue of CULS, for the purpose of purchasing securities in accordance with its published investment policy. If the Directors were to exercise their discretion and issue further CULS pursuant to the Further CULS Issue, the Company's level of gearing may increase. Gearing may provide an opportunity for greater growth in the net assets of the Company and greater capital appreciation in the value of the Ordinary Shares, but at the same time it increases the exposure of the Company and Ordinary Shareholders to the risk of capital loss.

Any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its net asset value (which is likely to adversely affect the price of the Company's Shares) where the Company has introduced gearing. Any reduction in the number of Shares in issue (for example, as a result of buy backs) will, in the absence of a corresponding reduction in gearing, result in an increase in the Company's level of gearing.

To the extent that a fall in the value of the Company's investments causes gearing to rise to a level that is not consistent with the Company's gearing policy or borrowing limits, the Company may sell investments in order to reduce its gearing, which may give rise to a significant loss of value compared to the book value of the investments as well as a reduction in income from investments.

### **The Investment Manager**

The past performance of the Investment Manager and other assets managed by the Investment Manager is not a guide to the future performance of the Company. The Company has no employees and will be dependent on the skills and experience of the Investment Manager to manage its investments. The departure of key skilled professionals (in particular Harry Nimmo) from the Investment Manager could have a material adverse effect on the Company's business, financial condition and results or operations.

## **Dividends**

The Company will only pay dividends on the Ordinary Shares to the extent that it has profits available for that purpose, which will largely depend on the amount of income that the Company receives on its investments and the timing of such receipt. A fall in the value of the Company's assets may also affect the Company's ability to pay dividends. Accordingly, the amount of dividends payable by the Company may fluctuate.

## **Cessation of investment trust status**

The Company seeks to conduct its business so as to satisfy the conditions for approval as an investment trust under Chapter 4 of Part 24 of the CTA 2010. In respect of each accounting period for which approval is granted the Company will be exempt from United Kingdom taxation on its capital gains. Breach of the tests that the Company must meet to obtain approval as an investment trust company could lead to the Company being subject to tax on capital gains and this may therefore reduce the returns to Shareholders.

## **Taxation and accounting**

The information in this document is based on existing legislation, including taxation legislation, as well as HMRC practice. The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this document (including those in relation to ISAs) are those currently available and their value depends on the individual circumstances of investors.

Any change in the Company's tax status or in taxation legislation or accounting practice could affect the value of the investments held by the Company, affect the Company's ability to provide returns to its Shareholders or alter the post-tax returns to its Shareholders. Any change in the tax treatment of dividends or interest received by the Company may reduce the returns to Shareholders.

Any changes to UK law or accounting rules and standards applicable to the Company or to the way in which the Company accounts for expenses, tax or tax relief as a result of changes to recommended accounting practices or accounting standards could have an adverse effect on the level of profits available for the payment of dividends.

Representations in this document concerning taxation are based on current law and practice which are subject to change. The information in this document relating to taxation law and practice is given by way of general summary and does not constitute legal or tax advice to investors.

## IMPORTANT INFORMATION

### Notice in the Edinburgh Gazette

In accordance with section 562(3) of the Act, the Open Offer to Qualifying Shareholders who have no registered address within an EEA State and who have not given the Company an address within an EEA State for the service of notices will (subject to the conditions of the Open Offer) be made by the Company publishing a notice in the Edinburgh Gazette on 4 March 2011, stating where copies of this Prospectus and the Application Form may be inspected, or, in certain circumstances, obtained on personal application, by or on behalf of such Qualifying Shareholders. Such Qualifying Shareholders may be able to participate in the Open Offer if they are able to prove to the Company that the receipt, or acceptance, of the Open Offer in such jurisdiction will not breach local securities laws.

In order to facilitate acceptance of the Open Offer made to such Qualifying Shareholders by virtue of such publication, this document and the Application Form will be posted to such Qualifying Shareholders (other than those Qualifying Shareholders with registered addresses in, or who are residents of, the Excluded Jurisdictions).

Accordingly, Qualifying non-CREST Shareholders who have no registered address within an EEA State and who have not given the Company an address within an EEA State for service of notices may, subject to the terms and conditions set out in this document, accept the Open Offer either by returning the Application Form posted to them in accordance with the instructions printed thereon or by obtaining copies thereof from Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol BS13 8AE. Qualifying CREST Shareholders who have no registered address within an EEA State and who have not given the Company an address within an EEA State for service of notices may, subject to the terms and conditions set out in this document, accept the Open Offer by following the relevant procedures for acceptance applicable to Qualifying CREST Shareholders whose Open Offer Entitlements have been credited to their CREST stock accounts.

Qualifying Shareholders will not be entitled to participate in the Open Offer unless they meet the legal requirements needed to establish their eligibility to participate in the Open Offer to the satisfaction of the Company.

### Overseas Shareholders

This document does not constitute an offer to sell or the solicitation of an offer to buy CULS nor any Open Offer Entitlements in the United States or in any jurisdiction in which such offer or solicitation is unlawful.

Neither the Open Offer Entitlements nor the CULS have been, or will be, registered under the United States Securities Act of 1933 (as amended) or under the securities legislation of any state or other jurisdiction of the United States of America. The Open Offer Entitlements and the CULS may not be directly or indirectly offered, sold, renounced, transferred, taken up or delivered in, into or within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act of 1933 (as amended) and in compliance with state securities laws. Application Forms are not being posted to any person in the United States and no Open Offer Entitlements will be credited to a stock or share account of any person in the United States. The CULS, the Application Form and this document have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the CULS or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

The attention of Overseas Shareholders and other recipients of this document who are residents or citizens of any country other than the United Kingdom or who have a contractual or other legal obligation to forward this document, the Form of Proxy or, where relevant, the Application Form to a jurisdiction outside the United Kingdom (including without limitation custodians, nominees and trustees) is drawn to paragraph 7 of Part 4 of this document.

It is the responsibility of any person receiving a copy of this document outside the United Kingdom to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory

in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities required to be observed in such territory and paying any other issue, transfer or other taxes due in such other territory. Persons (including, without limitation, nominees and trustees) receiving this document, the Form of Proxy and, where relevant, the Application Form should not distribute or send it into any jurisdiction when to do so would, or might, contravene local securities laws or regulations. Any person who does forward this document into any such jurisdictions should draw the recipient's attention to the contents of paragraph 7 of Part 4 of this document.

#### **Forward-looking statements**

The statements, including any forward-looking statements, contained in this document are made at the date of this document, unless some other time is specified in relation to them, and distribution of this document shall not give rise to any implication that there has been no change in the facts set forth herein since such date.

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believe", "estimate", "anticipate", "expect", "intend", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include matters that are not historical facts. They include statements regarding the intentions, beliefs or current expectations of the Company concerning, amongst other things, the investment performance, prospects and dividend policy of the Company and the markets in which it invests and the issuing of securities by the Company. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Investors should not place undue reliance on such forward-looking statements, and the Company does not undertake any obligation to update publicly or revise any forward-looking statements, save as required by the Listing Rules, the Prospectus Rules, the Disclosure Rules and Transparency Rules or any other applicable law or regulation.

## EXPECTED TIMETABLE

<i>Event</i>	<i>2011</i>
Record Date for entitlements under the Open Offer	6.00 p.m. 28 February
Open Offer opens, despatch of Prospectus, Application Forms and Forms of Proxy	Wednesday 2 March
Ex-entitlement Date (expected to be)	8.00 a.m. Thursday 3 March
Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to stock accounts in CREST of Qualifying CREST Shareholders	Thursday 3 March
Record date for Interim Dividend	Friday 11 March
Latest recommended time and date for requested withdrawal of Open Offer Entitlements and Excess CREST Open Offer Entitlements from CREST	4.30 p.m. Thursday 17 March
Latest time and date for depositing Open Offer Entitlements and Excess CREST Open Offer Entitlements into CREST	3.00 p.m. Friday 18 March
Payment of Interim Dividend	Friday 18 March
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims)	3.00 p.m. Monday 21 March
<b>Placing closes</b>	<b>Tuesday 22 March</b>
<b>Open Offer closes, latest time and date for receipt of completed Application Forms and payment in full under the Open Offer and settlement of relevant CREST instructions (as appropriate)</b>	<b>11.00 a.m. Wednesday 23 March</b>
Latest time and date for receipt of completed Forms of Direction, Savings Plans Application Forms and payment in full from Savings Plans Participants	11.00 a.m. Wednesday 23 March
Latest time and date for receipt of Forms of Proxy for use at the General Meeting	11.00 a.m. Thursday 24 March
Latest time and date for receipt of electronic proxy appointments via the CREST system	11.00 a.m. Thursday 24 March
Commitments undertaken by investors pursuant to the Placing on a T + 3 basis	Thursday 24 March
<b>General Meeting of the Company to approve matters in connection with the Issue</b>	<b>11.00 a.m. Monday 28 March</b>
Results of the Placing and Open Offer and conversion premium announced through a Regulatory Information Service	Monday 28 March
Admission and commencement of dealings in CULS on the London Stock Exchange expected to commence	8.00 a.m. Tuesday 29 March
CULS issued to investors and CREST stock accounts expected to be credited for the CULS	Tuesday 29 March
CULS issued to investors and definitive certificates for CULS expected to be despatched	On or around 4 April

**Notes:**

- (1) CREST Shareholders should inform themselves of CREST's requirements in relation to electronic proxy appointments.
- (2) The dates set out in the expected timetable of principal events above and mentioned throughout this document and the Application Form are indicative only and may be adjusted by the Company (with the agreement of Winterflood Securities), in which event details of the new dates will be notified to the UK Listing Authority and to the London Stock Exchange and, where appropriate, to Shareholders.
- (3) References to times in this document are to London time.

## PLACING AND OPEN OFFER STATISTICS

Number of Ordinary Shares in issue at the date of this document	63,722,556
CULS interest rate	3.5%
CULS Issue Price	100p
CULS conversion premium*	10%
CULS to be issued under the Firm Placing	£12,500,000
CULS to be available under the Open Offer	£12,500,000
Net Asset Value per Ordinary Share**	217.35p
Estimated net proceeds of the Issue available to the Company	£24,470,000
ISIN for Ordinary Shares	GB0002959582
ISIN for CULS	GB00B3YX0W77

\* to the unaudited NAV per Ordinary Share on 23 March 2011

\*\* unaudited NAV per Ordinary Share as at 28 February 2011

The statistics above are for illustrative purposes only based on the assumption that the Issue is subscribed for in full. Prospective investors should note that actual outcomes may be expected to differ from these illustrations and therefore they should not be relied upon. The illustrations are not guarantees of future performance and involve certain risks and uncertainties. The attention of prospective investors is drawn to the risk factors set out on pages 7 to 10 of this document.

## CHECKLIST OF DOCUMENTATION INCORPORATED BY REFERENCE

<i>Information incorporated by reference</i>	<i>Document reference</i>
Annual Report and Accounts for the year ended 30 June 2008	Annual Report and Accounts for the year ended 30 June 2008
Annual Report and Accounts for the year ended 30 June 2009	Annual Report and Accounts for the year ended 30 June 2009
Annual Report and Accounts for the year ended 30 June 2010	Annual Report and Accounts for the year ended 30 June 2010
Half yearly report for the six months ended 31 December 2010	Half yearly report for the six months ended 31 December 2010

The documents incorporated by reference can be obtained from the Company's website, [www.standardlifeinvestments.com/its](http://www.standardlifeinvestments.com/its), and as set out in paragraph 18 of Part 6 of this document.

## DEFINITIONS

<b>1985 Act</b>	the Companies Act 1985
<b>Act</b>	the Companies Act 2006 (as amended)
<b>Aberdeen Savings Plans</b>	the Aberdeen Investment Trust Share Plan and the Aberdeen Investment Trust ISA or either of them (as the context so requires)
<b>Admission</b>	admission of up to £25 million in nominal value of CULS to be issued pursuant to the Placing and the Open Offer to the standard debt segment of the Official List and to trading on the London Stock Exchange's Main Market
<b>AIC Code</b>	The Association of Investment Companies Code of Corporate Governance
<b>Application Form</b>	the personalised application form for Qualifying Shareholders to use in connection with the Open Offer accompanying, where relevant, this document
<b>Articles</b>	the articles of association of the Company (as amended from time to time)
<b>Bank Facility</b>	the £15 million multi-currency revolving loan facility provided to the Company by BNP Paribas pursuant to the Facility Agreement
<b>Board or Directors</b>	the board of directors of the Company (or any duly authorised committee thereof) from time to time
<b>BNP Paribas</b>	BNP Paribas Securities Services S.A.
<b>business day</b>	any day other than a Saturday, Sunday or public holiday in the United Kingdom
<b>certificated form</b>	not in uncertificated form
<b>City Code</b>	the City Code on Takeovers and Mergers
<b>Company</b>	Standard Life UK Smaller Companies Trust plc
<b>Computershare or the Receiving Agent</b>	Computershare Investor Services PLC
<b>Conversion Price</b>	the nominal amount of CULS required for conversion into one Ordinary Share from time to time
<b>Conversion Rights</b>	the right of each CULS Holder (and where applicable, the Trustee on his behalf) to convert the whole or such part (being an integral multiple of £1 nominal) of his CULS as he may specify into fully paid Ordinary Shares in accordance with the provisions of this document and the Trust Deed
<b>CREST</b>	the paperless settlement system operated by Euroclear governed by the CREST Regulations and any successor system or operator for the purposes of those Regulations
<b>CREST Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended from time to time
<b>CTA 2010</b>	the Corporation Tax Act 2010

<b>CULS</b>	3.5 per cent. convertible unsecured loan stock 2018 constituted by the Trust Deed and issued by the Company pursuant to the Issue including the Excess Application Facility and any Further CULS Issue, with the rights described in Part 3 of this document
<b>CULS Holder</b>	a holder of CULS
<b>CULS Issue Price or Issue Price</b>	100p per £1 nominal unit of CULS
<b>Disclosure Rules and Transparency Rules</b>	the disclosure and transparency rules made by the FSA under section 72 of FSMA
<b>EEA</b>	the European Economic Area
<b>EEA State</b>	a member state of the EEA
<b>Euroclear</b>	Euroclear UK & Ireland Limited, the operator of CREST
<b>Excess Application Facility</b>	the arrangement pursuant to which each Qualifying Shareholder may apply for an amount of CULS in excess of their Open Offer Entitlement up to a maximum amount equal to 100 per cent. of their Open Offer Entitlement provided they have agreed to take up their Open Offer Entitlement in full and such application may be subject to scaling back in accordance with the provisions of this document
<b>Excess CREST Open Offer Entitlement</b>	in respect of each Qualifying CREST Shareholder, the entitlement to apply for CULS in excess of their Open Offer Entitlement which will be credited to his or her stock account in CREST, pursuant to the Excess Application Facility, provided that the Qualifying CREST Shareholder has agreed to take up their Open Offer Entitlement in full and such application may be subject to scaling back in accordance with the provisions of this document
<b>Excess CULS</b>	CULS in addition to the Open Offer Entitlement for which Qualifying Shareholders may apply under the Excess Application Facility
<b>Excluded Jurisdictions</b>	the United States, Canada, Australia, Japan, New Zealand and the Republic of South Africa
<b>Facility Agreement</b>	the facility agreement dated 14 October 2010 between the Company and BNP Paribas, further details of which are set out in paragraph 7.3 of Part 6 of this document
<b>Financial Year</b>	the financial year of the Company from time to time, currently being the 12 month period ending on 30 June
<b>Firm Placing</b>	the placing of up to £12.5 million in nominal value of CULS by Winterflood Securities on behalf of the Company, pursuant to the Placing Agreement
<b>Firm Placed CULS</b>	the CULS which have been placed with investors who have agreed to participate in the Firm Placing
<b>Form of Proxy</b>	the form of proxy which accompanies this document for use by Shareholders in connection with the General Meeting
<b>FSA</b>	the Financial Services Authority
<b>FSMA</b>	the Financial Services and Markets Act 2000



<b>Further CULS Issue</b>	the further issue carried out by way of a placing or placings, at the absolute discretion of the Directors, of up to, in aggregate, £5 million in nominal value of CULS in the period up to the first anniversary of the date of this document
<b>General Meeting</b>	the general meeting of the Company convened for 11.00 a.m. on 28 March 2011 or any adjournment thereof
<b>Gross Proceeds</b>	the aggregate number of CULS subscribed for through the Placing and Open Offer, multiplied by the CULS Issue Price
<b>HMRC</b>	HM Revenue & Customs
<b>Interim Dividend</b>	the interim dividend in respect of the six months to 31 December 2010 to be paid by the Company on 18 March 2011
<b>Investment Management Agreement</b>	the investment management agreement dated 30 January 2009 (as amended) between the Company and the Manager, the principal terms of which are summarised in paragraph 7.1 of Part 6 of this document
<b>ISA</b>	an individual savings account
<b>Issue</b>	the issue of CULS by the Company pursuant to the Placing and the Open Offer
<b>Listing Rules</b>	the listing rules of the UK Listing Authority made pursuant to section 73A of FSMA
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>Manager or Investment Manager or Standard Life Investments or SLI</b>	Standard Life Investments (Corporate Funds) Limited, a company registered in Scotland with registered number SC111488
<b>Main Market</b>	the London Stock Exchange's main market for listed securities being a regulated market for the purposes of Directive 2004/39/EC, the "Markets in Financial Instruments Directive"
<b>Member Account ID</b>	the identification code or number used in CREST to identify a particular CREST member or other CREST participant
<b>Minimum Net Proceeds</b>	the minimum net proceeds of the Issue, being £20 million
<b>Money Laundering Regulations</b>	the Money Laundering Regulations 2007
<b>Net Asset Value or NAV</b>	the net asset value of the Company as calculated by the Company in accordance with the Company's normal accounting policies; net asset value per share is calculated by dividing the Net Asset Value by the number of Ordinary Shares in issue on that date
<b>Official List</b>	the Official List of the UK Listing Authority
<b>Open Offer</b>	the open offer to Qualifying Shareholders for subscription of CULS on and subject to the terms and conditions set out in this document (and, where applicable, the Application Form)
<b>Open Offer Entitlement</b>	the entitlement of a Qualifying Shareholder to apply for 0.1962 CULS for each Ordinary Share held by him or her on the Record Date, on and subject to the terms of the Open Offer but excluding, for the avoidance of doubt, CULS pursuant to the Excess Application Facility

<b>Ordinary Shareholders or Shareholders</b>	holders of Ordinary Shares
<b>Ordinary Shares or Shares</b>	ordinary shares of 25p each in the capital of the Company
<b>Overseas Shareholders</b>	Ordinary Shareholders with registered addresses in, or who are resident or ordinarily resident in, or, citizens of jurisdictions outside the United Kingdom
<b>Panel</b>	the Panel on Takeovers and Mergers
<b>Participant ID</b>	the identification code or membership number used in CREST to identify a particular CREST member or CREST participant
<b>Placees</b>	any persons who have conditionally agreed or shall agree to subscribe for CULS pursuant to the Placing subject to clawback to satisfy valid applications by Qualifying Shareholders pursuant to the Open Offer
<b>Placing</b>	the conditional placing of CULS by Winterflood Securities on behalf of the Company, pursuant to the Placing Agreement which for the avoidance of doubt includes, where appropriate, the Firm Placing
<b>Placing Agreement</b>	the agreement dated 2 March 2011 between the Company and Winterflood Securities relating to the Placing and the Open Offer, the principal terms of which are summarised in paragraph 8 of Part 6 of this document
<b>Prospectus</b>	this document together with the documents incorporated by reference as set out on page 14 of this document
<b>Prospectus Rules</b>	the prospectus rules and regulations made by the FSA under section 734 of FSMA
<b>Qualifying CREST Shareholders</b>	Qualifying Shareholders holding Ordinary Shares in uncertificated form in CREST
<b>Qualifying non-CREST Shareholders</b>	Qualifying Shareholders holding Ordinary Shares in certificated form
<b>Qualifying Shareholders</b>	holders of Ordinary Shares on the register of members of the Company at the Record Date
<b>Receiving Agent</b>	Computershare Investor Services PLC, Corporate Actions Projects, Bristol BS99 6AH
<b>Record Date</b>	6.00 p.m. on 28 February 2011
<b>Register</b>	the register of members of the Company
<b>Resolution</b>	the resolution to be proposed at the General Meeting in connection with the Issue
<b>RIS</b>	a Regulatory Information Service approved by the FSA and on the list of regulatory information services maintained by the FSA
<b>RPI</b>	the Retail Prices Index being the monthly index numbers of retail prices
<b>Savings Plans Application Form</b>	the personalised application form for use by Savings Plans Participants in connection with the Open Offer accompanying, where relevant, this document

<b>Savings Plans Participants</b>	beneficial owners of Shares held through one or more of the Aberdeen Savings Plans or the Standard Life Savings Plans
<b>Secretary</b>	(subject to the provisions of the Companies Acts) includes any person appointed by the Directors to perform any of the duties of the secretary and where two or more persons are appointed to act as joint secretaries shall include any one of those persons
<b>Securities Act</b>	the United States Securities Act of 1933 (as amended)
<b>SIPP</b>	self-invested personal pension
<b>Trust Deed</b>	the trust deed proposed to be entered into between the Company and the Trustee constituting the CULS, the principal terms of which are summarised in Part 3 of this document
<b>Trustee</b>	the trustee from time to time of the CULS, which on the issue of the CULS will be The Law Debenture Trust Corporation p.l.c.
<b>UK or United Kingdom</b>	the United Kingdom of Great Britain and Northern Ireland
<b>UK GAAP</b>	UK generally accepted accounting practice
<b>UK Listing Authority</b>	the Financial Services Authority acting in its capacity as competent authority for the purposes of Part VI of FSMA
<b>uncertificated or in uncertificated form</b>	recorded in the Company's register of members as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
<b>United States or US</b>	the United States of America, its territories, its possessions including the states, the District of Columbia and other areas subject to its jurisdiction
<b>US Person</b>	any "US Person" as such term is defined in Regulation S under the Securities Act
<b>VAT</b>	value added tax
<b>Winterflood Securities</b>	Winterflood Securities Limited, acting through its division, Winterflood Investment Trusts

## DIRECTORS, INVESTMENT MANAGER AND ADVISERS OF THE COMPANY

<b>Directors of the Company</b>	Donald MacDonald ( <i>Chairman</i> ) Carol Ferguson Lynn Ruddick David Woods  The Directors are all non-executive and all of:  7th Floor 40 Princes Street Edinburgh EH2 2BY
<b>Investment Manager</b>	Standard Life Investments (Corporate Funds) Limited 1 George Street Edinburgh EH2 2LL
<b>Secretary and registered office</b>	Aberdeen Asset Management PLC 7th Floor 40 Princes Street Edinburgh EH2 2BY
<b>Broker, Financial Adviser and Placing Agent</b>	Winterflood Securities Limited The Atrium Building Cannon Bridge 25 Dowgate Hill London EC4R 2GA
<b>Solicitors to the Company</b>	Dickson Minto W.S. Broadgate Tower 20 Primrose Street London EC2A 2EW
<b>Auditors of the Company</b>	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
<b>Bankers and Custodians</b>	BNP Paribas Securities Services S.A. 55 Moorgate London EC2R 6PA
<b>Registrars and Receiving Agent</b>	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ Telephone 0870 889 4076
<b>Trustee to the CULS</b>	The Law Debenture Trust Corporation p.l.c. Fifth Floor 100 Wood Street London EC2V 7EX

## PART 1

### LETTER FROM THE CHAIRMAN

#### STANDARD LIFE UK SMALLER COMPANIES TRUST PLC

*(Incorporated in Scotland under the Companies Act 1985 with registered number SC145455;  
an investment company under section 833 of the Companies Act 2006)*

*Directors:*

Donald MacDonald (*Chairman*)  
Carol Ferguson  
Lynn Ruddick  
David Woods

*Registered Office:*

40 Princes Street  
Edinburgh  
EH2 2BY

2 March 2011

Dear Shareholder,

**Issue of up to £25 million nominal of 3.5 per cent. Convertible Unsecured Loan Stock 2018 ("CULS")  
at 100p per £1 nominal unit**

**Background to the Placing and Open Offer**

The Board announced on 12 January 2011 that the Company and its advisers were exploring the possibility of an issue of convertible unsecured loan stock to replace the Company's existing gearing facilities and potentially extend the core capital of the Company. The Board today announced that the Company is proposing to raise up to £25 million through a Placing and Open Offer of CULS. The Board believes that introducing structural gearing, which will replace the existing Bank Facility, will further enhance the Manager's ability to increase capital returns. The Directors intend to apply the net proceeds of the Issue which based on the Minimum Net Proceeds being raised under the Issue, will be £20 million, to repay the existing Bank Facility of which £14 million was drawn down as at 28 February 2011 (the latest practicable date prior to the publication of this document). The maximum amount that may be drawn down under the Bank Facility is £15 million. The balance will be able to be invested by the Manager in accordance with the Company's investment policy without any change in the Company's approach to investing in UK small cap opportunities.

Up to £25 million in nominal value of CULS is available under the Issue at an Issue Price of 100p per nominal unit. The interest rate on the CULS will be 3.5 per cent. per annum, payable semi-annually. CULS Holders will be able to convert their CULS into Ordinary Shares twice annually throughout the life of the CULS, commencing on 30 September 2011 and all outstanding CULS will be repayable at par on 31 March 2018. The initial rate of the conversion will be set at a premium of 10 per cent. to the NAV per Ordinary Share at the time the CULS are issued.

Qualifying Shareholders will have the opportunity to subscribe for up to £12.5 million of CULS under the Open Offer on a pre-emptive basis. Qualifying Shareholders will also be able to apply for up to a maximum amount equal to 100 per cent. of their Open Offer Entitlement under the Excess Application Facility. The Excess Application Facility will apply to the extent that other Qualifying Shareholders do not take up their Open Offer Entitlements in full.

Winterflood Securities has conditionally placed £25 million of CULS available under the Issue, including the £12.5 million of CULS that is available under the Open Offer, with institutional investors and private client stockbrokers at the Issue Price, subject to clawback in respect of valid applications made by Qualifying Shareholders under the Open Offer including the Excess Application Facility.

The Issue is subject to Shareholder approval and a General Meeting is being convened for 11.00 a.m. on 28 March 2011 to approve the Issue. Notice of the General Meeting is set out at the end of this document.

### **Benefits of the Placing and Open Offer**

The Directors believe that the Placing and Open Offer will have the following advantages:

- the Company will be provided with access to additional investable funds with a coupon of 3.5 per cent. per annum which is competitive compared to other forms of gearing that the Company might have employed;
- the Issue will provide capital protection to CULS Holders through repayment at par and is substantially covered by the net assets of the Company, being more than 5 times covered based on an Issue of £25 million of CULS and net assets of £138.5 million at 28 February 2011;
- following any conversion of the CULS, the Company would have an increased number of Ordinary Shares in issue, which should in due course, enhance the liquidity in the market for the Company's Ordinary Shares; and
- following any conversion of the CULS, the capital base of the Company would increase, allowing operating costs to be spread across a larger number of Ordinary Shares and this should cause the total expense ratio to fall.

### **Investment performance**

The Manager has continued, since its appointment in September 2003, to focus on investing in quality companies with proven and sustainable business models. This has led the Company's investment portfolio to outperform significantly the UK smaller companies market. The Company's record of successful long term investment performance is illustrated in the table below.

	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>Since SLI became Manager (31 August 2003 – 28 February 2011)</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
NAV total return <sup>(1)</sup>	56.7	65.9	95.1	250.4
Share price total return <sup>(1)</sup>	76.4	86.6	132.4	388.6
Benchmark total return <sup>(1)</sup>	27.3	28.0	33.1	133.5
Peer group ranking <sup>(2)</sup>	2/16	1/16	1/15	1/14

<sup>(1)</sup> Source: Morningstar

<sup>(2)</sup> Source: JP Morgan Cazenove

Information about the past and the further performance of the Company and the Ordinary Shares can be obtained from the Company's website, [www.standardlifeinvestments.com/its](http://www.standardlifeinvestments.com/its). The Company's website nor the content of any website accessible from hyperlinks on that website (or any other website) is not (or is not deemed to be) incorporated into, or forms (or is deemed to form) part of this Prospectus.

As at 28 February 2011 (the latest practicable date prior to the publication of this document) the Company's unaudited net assets were £138.5 million, as compared with the audited net assets at 30 June 2010 (the Company's most recent financial year-end) of £97.3 million and the unaudited net assets at 31 December 2010 (being the end of the last financial period of the Company for which half yearly financial information has been published) of £132.5 million. The net assets of the Company have increased by 36.2 per cent. over the six months ended 31 December 2010.

The Company pays dividends based on the net income received during the year. In the last three Financial Years, the dividends per Ordinary Share have been 1.60 pence in 2008, 1.60 pence in 2009 and 2.50 pence in 2010.

### **Investment outlook**

The Board believes that the outlook for the UK smaller companies sector is positive and that current valuations offer the opportunity for attractive returns for longer term investors.

The past ten years have been a period of significant change for smaller companies, in particular the impact of new technologies and the internet. Smaller companies have been more successful than

larger companies at moving quickly to take advantage of these changes. Significant returns can be achieved by identifying successful smaller companies that will, over time, grow to become larger companies.

The other major recent trend has been the sustainability of rapid growth in emerging country economies, particularly China. As many of these countries move towards developed economies' living standards they are increasing expenditure on a range of capital goods and are developing their domestic economies. Smaller companies are benefiting significantly from this growth. This trend has also positively affected the mining, oil and gas and soft commodities sectors in which there is significant smaller company exposure.

There remain risks in stock markets as the global economy continues to deal with the aftermath of the banking crisis, sovereign debt levels and tightening monetary and fiscal policies. However, the Company will seek to address those risks through continuing to focus on high quality companies, sustainable growth and risk aversion.

#### ***Amendment to the investment policy***

The Company will continue to apply its current investment objective, namely to achieve long-term capital growth through investment in UK quoted smaller companies, and investment policy, save as noted below.

The Company's current investment policy provides that the Directors expect that, in normal market conditions, gearing will not exceed 20 per cent. of net assets at the time of drawdown. In connection with the Issue, the Company proposes to amend its investment policy to increase the Company's gearing limit to *25 per cent. of net assets* at the time of drawdown. The maximum level of gearing of 100 per cent. of net assets at the time of drawdown will remain unchanged. The Company also proposes to amend its investment policy to state that the Company *may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating investment risks in its investments in order to protect the Company's portfolio)*. The Board believes that this will give the Manager more flexibility to manage risks in the Company's portfolio. Further details in relation to the Company's investment policy and this proposed change to the gearing policy are set out in Part 2 of this document.

#### ***Investment Management Agreement***

The Company's Investment Management Agreement currently provides for a fee of 0.65 per cent. per annum of the gross asset value of the Company. The fee on uninvested cash and cash equivalents is 0.20 per cent. per annum.

A performance fee is also payable if the Company out-performs its benchmark on a capital returns basis by at least 1 per cent. per annum. The amount of the performance fee is 20 per cent. per annum of the Company's out-performance, capped at 0.6 per cent. per annum of the Company's gross assets. The Company's benchmark is the Hoare Govett Smaller Companies (ex investment companies) capital return index. The performance fee is subject to protections in respect of under performance as follows. The performance fee is subject to a high water mark such that if the NAV per Ordinary Share at the end of the relevant period is less than the NAV per Ordinary Share at the start of the Financial Year two years prior to the current year, increased at an annualised rate of 1 per cent. per annum above the benchmark, no performance fee is payable (i.e. over a three year rolling period).

The Company is not proposing to change the management fees, payable to the Manager, as a result of the Issue. Please refer to paragraph 7.1 of Part 6 of this document for further details of the Investment Management Agreement.

#### **The Placing and Open Offer**

The Open Offer for up to £12.5 million in nominal value of CULS provides Qualifying Shareholders with the opportunity to participate in the Issue by subscribing for their Open Offer Entitlements on a pre-emptive basis and to make excess applications under the Excess Application Facility, if they wish to do so, up to a maximum amount equal to 100 per cent. of their Open Offer Entitlement, subject to CULS being available once all of the applications for *pro-rata* entitlements under the Open Offer have been taken into account.

The Open Offer of CULS will provide Qualifying Shareholders, who choose to apply, with an attractive yield of 3.5 per cent. per annum, above the dividend yield on the Ordinary Shares, currently 1.2 per cent. based on the most recent annual dividend of 2.5 pence per Share and a share price of 212.00 pence per Share at close of business on 28 February 2011 (the latest practicable date prior to the publication of this document).

Of the £25 million of CULS proposed to be issued under the Placing and Open Offer £12.5 million of CULS have been conditionally placed firm pursuant to the Firm Placing and £12.5 million of CULS have been conditionally placed subject to clawback by Qualifying Shareholders under the Open Offer. Qualifying Shareholders are not being offered the right to subscribe for the Firm Placed CULS.

The Firm Placing of up to £12.5 million in nominal value of CULS and the conditionally placed CULS which are subject to clawback by Qualifying Shareholders under the Open Offer (including for the avoidance of doubt, the Excess Application Facility) has ensured that approximately £25 million in nominal value of CULS will be subscribed for, irrespective of the result of Qualifying Shareholders applying under the Open Offer, which gives some certainty regarding Issue proceeds.

The Issue is conditional, *inter alia*, upon:

- the passing of the Resolution without any amendment at the General Meeting convened for 28 March 2011;
- the Minimum Net Proceeds of £20 million being raised under the Issue by 29 April 2011 (or such lower amount as the Company and Winterflood Securities may agree in writing);
- the Placing Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms; and
- Admission taking place no later than 8.00 a.m. 29 March 2011 (or such later date as the Company and Winterflood Securities agree, not being later than 29 April 2011).

In the event that these conditions are not satisfied, the Issue will not proceed. Any application monies which have been received will be returned (at the applicant's sole risk) without payment of interest, as soon as possible thereafter.

If the Issue does not proceed as a result of the above conditions not being satisfied, the Company may refinance the Bank Facility when it becomes payable on 13 October 2011. If the Directors decide not to refinance the Bank Facility, it will be repaid by the Company realising certain of its investments and as a result the Company may not have a geared exposure to the Main Market which may reduce the growth in the net asset value per Share.

If the Issue is subscribed for in full, the costs of the Issue, which will be borne by the Company, are expected to be 0.4 per cent. of the Company's net assets as at 28 February 2011.

#### **Further CULS Issue**

The Board may, in its absolute discretion, consider whether to issue up to a further £5 million of CULS under the Further CULS Issue in the period up to the first anniversary of the date of this Prospectus. Any further CULS will be issued at or around the prevailing market price of CULS at the time of issue provided it is at a premium to the nominal value of £1. These further CULS will rank *pari passu* with the CULS to be issued in connection with the Issue. Any further issues will be dependent on demand for CULS in the market and the Board being able to issue them at a price that will cover any costs of the issue and not be dilutive to the value of the existing Shareholders' interests. The Directors will also take into account the gearing level of the Company before deciding to issue any further CULS. Any premium on the prices paid over nominal value (after deducting any costs of the issue) will be for the benefit of the Company. There can be no guarantee that the Company will issue further CULS and any Further CULS Issue will be carried out on the basis of a prospectus published by the Company at the time of any such Further CULS Issue.

#### **Details of the CULS**

The Issue will give the Company long-term structural gearing at a fixed cost. The net proceeds of the Issue will be used to repay the existing Bank Facility (the maximum amount that would be repayable



is £15 million) and the balance will be able to be invested in accordance with the Company's investment objective and policy (described in Part 2 of this document), which will increase the Company's ability to make new investments of the kind that have contributed significantly to its performance in the past. To the extent that CULS are converted, the Company will in due course have additional permanent equity capital.

The interest rate on the CULS will be 3.5 per cent. per annum, payable semi-annually in arrears on 30 September and 31 March in each year, with the first interest payment on 30 September 2011, in respect of the period from (and including) the date of Admission (anticipated to be 29 March 2011) to (but excluding) the date of final repayment of the CULS (anticipated to be 31 March 2018).

CULS Holders will be entitled to convert their CULS into Ordinary Shares every six months from 30 September 2011 until 31 March 2018. The initial Conversion Price will be set at a 10 per cent. premium to the (unaudited) NAV per Ordinary Share on 23 March 2011, rounded up to the nearest penny. The Company will announce the initial Conversion Price to an RIS as soon as practicable following its calculation.

By way of illustration, had the Conversion Price been set by reference to the (unaudited) NAV per Ordinary Share at 28 February 2011 (the latest practicable date prior to the publication of this document) of 217.35 pence, the Conversion Price would have been 239.08 pence and a holder of £1,000 nominal of CULS would have been entitled to 418 Ordinary Shares on conversion of his CULS. The exercise of the CULS in full (assuming £25 million is raised pursuant to the Issue) would (at the above illustrative Conversion Price) result in 10.5 million Ordinary Shares being issued, which would represent an increase of 16.5 per cent. in the Company's current issued Ordinary Share capital. Under the terms of the Trust Deed, the Conversion Price will be subject to subsequent adjustment on the occurrence of certain events.

If, at any time after 31 March 2016, the middle market price of the Ordinary Shares is 30 per cent. or more above the Conversion Price for at least 20 dealing days during a period of 30 consecutive dealing days, the Company will be able to require CULS Holders to redeem their CULS at par. In such event, CULS Holders would be given a final opportunity to convert their outstanding CULS into Ordinary Shares.

Following conversion of 80 per cent. or more of the nominal amount of the CULS originally issued and any further CULS forming a single series therewith and on any subsequent conversion date, the Company will be entitled to require remaining CULS Holders to convert their outstanding CULS into Ordinary Shares after they have been given an opportunity to have their CULS redeemed.

On a winding-up of the Company, the nominal amount of the CULS will rank ahead of the Ordinary Shares, but be subordinated to the Company's borrowings and other creditors.

The Trust Deed constituting the CULS will not contain any restriction on borrowings (including borrowings ranking ahead of the CULS), the disposal of assets or the creation of charges by, or changes in the nature of the business of, the Company or any subsidiary of the Company.

Any CULS not previously redeemed, purchased or converted will be repaid by the Company on 31 March 2018 at its nominal amount.

The coupon on the CULS will be allocated, as a finance cost, in accordance with the Company's accounting policies.

Further details of the CULS are set out in Part 3 of this document.

### **Regular discount control**

The Company is not proposing to amend any of its other structural arrangements as a result of the Issue and expects to continue to apply its share buy back policy and periodic tender offers.

### ***Regular tender offers***

It is the Company's current policy to offer Shareholders, on a six monthly basis on 30 June and 31 December of each year, the opportunity to exit some or all of their investment in the Company.

Subject to certain limitations set out below, the Directors intend to continue to invite Shareholders to tender for purchase for cash all or part of their holdings of Ordinary Shares provided that each periodic tender offer is restricted to a maximum of 5 per cent. in aggregate of the Ordinary Shares in issue as at the relevant tender offer calculation date (excluding any Ordinary Shares held in treasury). Any amount unused at the 30 June tender date can be carried forward to the 31 December tender date and up to 5 per cent. of the 10 per cent. in any calendar year that remains unused can be carried forward to the next calendar year only. Accordingly, the maximum limit of Shares which can be tendered in any calendar year will be up to 15 per cent. of the Shares in issue (including a full carry forward of 5 per cent. from the previous calendar year).

The price at which Shares will be purchased will be an amount equal to 98 per cent. of the realisation value of the assets attributable to the shares tendered as at the close of business on the relevant periodic tender offer calculation date. The realisation value is the NAV per Ordinary Share on the relevant tender offer calculation date less the costs of the tender offer which for the avoidance of doubt includes portfolio realisation costs, advisory fees, VAT and stamp duty.

Investors should note that the operation of the periodic tender offers will be at the absolute discretion of the Board. In the light of the Company assuming structural gearing through the issue of the CULS, the Board may, after taking into account the outcomes of previous periodic tender offers and the then current rating of the Ordinary Shares, amend the provisions of the periodic tender offers to protect continuing Shareholders' interests. In carrying out any periodic tender offers the Board will give careful consideration to the future cashflows and the gearing levels of the Company as well as to the amount the Board resolves to commit to future investment opportunities. In addition the Board will seek to ensure that Shares are only bought back by the Company at prices which are in the best interests of all Shareholders.

#### **Share buy backs**

The Board was also given the authority to buy back up to 14.99 per cent. of the Company's issued share capital on 12 October 2010 being the date of the Company's last annual general meeting. The Board does not intend to use this authority to purchase the Company's Shares unless to do so would result in an increase in the net asset value per Share and would be in the best interests of the Shareholders.

#### **Resolution to be voted on at the General Meeting**

Implementation of the Placing and Open Offer requires Shareholders to approve the Resolution to be proposed as a special resolution at the General Meeting. If passed the Resolution will:

- (i) authorise the Directors to allot the CULS pursuant to the Issue and Further CULS Issue and Ordinary Shares pursuant to the exercise of the Conversion Rights up to a maximum nominal amount of £30 million;
- (ii) authorise the Directors to waive statutory pre-emption rights in relation to the allotment of CULS pursuant to the Firm Placing, any Further CULS Issue and Ordinary Shares pursuant to the exercise of Conversion Rights up to a maximum nominal amount of £17.5 million; and
- (iii) amend the Company's investment policy to provide: (a) that the Company may use derivatives for portfolio hedging purposes; and (b) for a gearing limit of up to 25 per cent. of the Company's net assets at the time of drawdown, as explained in more detail under the paragraph headed "Investment policy" in Part 2 of this document.

The Board, through its advisers Winterflood Securities and the Manager, has consulted on the Issue with a significant percentage of the Company's larger Shareholders and is confident that Shareholders, in the light of the benefits of the Issue set out above, will vote in favour of the Issue at the forthcoming General Meeting.

#### **Overseas Shareholders**

The attention of Overseas Shareholders who have registered addresses outside the United Kingdom, or who are citizens of, or residents, or located in countries other than the United Kingdom, or who are holding Ordinary Shares for the benefit of such persons (including without limitation, nominees,

custodians and trustees) or have a contractual or legal obligation to forward this document, the Form of Proxy or the Application Form to such persons, is drawn to the information which appears in paragraph 7 of Part 4 of this document.

In particular, Qualifying Shareholders who have registered addresses outside the UK, or who are citizens of or resident or located in countries other than the UK (including, without limitation, the US or any of the other Excluded Jurisdictions) should consult their professional advisers as to whether they require any governmental or other consent or need to observe any other formalities to enable them to take up their entitlements in the Open Offer.

### **Taxation**

Certain information about taxation in relation to the Placing and Open Offer is set out in paragraph 10 of Part 6 of this document. If you are in any doubt as to your tax position you should consult your own independent tax adviser without delay.

### **Actions to be taken**

#### ***General Meeting***

You will find enclosed with this document a Form of Proxy for use at the General Meeting. **Whether or not you wish to subscribe for CULS under the Open Offer and regardless of whether you propose to attend the General Meeting in person, it is important that you complete and sign the enclosed Form of Proxy in accordance with the instructions printed thereon and return it to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, as soon as possible and, in any event, so as to be received not later than 11.00 a.m. on 24 March 2011.** The completion and return of the Form of Proxy will not preclude you from attending the General Meeting and voting in person, if you so wish.

If you hold Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the Registrar so that it is received by no later than 11.00 a.m. on 24 March 2011.

#### ***Applying under the Open Offer***

##### ***Qualifying non-CREST Shareholders (i.e. holders of Ordinary Shares who hold their Ordinary Shares in certificated form)***

If you are a Qualifying non-CREST Shareholder you will receive an Application Form which gives details of your Open Offer Entitlements (as shown by the number of Open Offer Entitlements set out in Box 2). If you wish to apply for CULS under the Open Offer, you should complete the Application Form in accordance with the procedure for application set out in paragraph 5.1 of Part 4 of this document and on the Application Form itself. Completed Application Forms, accompanied by full payment in accordance with the instructions in paragraph 5.1 of Part 4 of this document, should be posted in the accompanying pre-paid envelope or (during normal business hours only) delivered by hand to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE, so as to arrive as soon as possible and in any event so as to be received by no later than 11.00 a.m. on 23 March 2011. If you do not wish to apply for any CULS under the Open Offer, you should not complete or return the Application Form.

##### ***Qualifying CREST Shareholders***

If you are a Qualifying CREST Shareholder no Application Form will be sent to you and you will receive a credit to your appropriate stock account in CREST in respect of the Open Offer Entitlements. You should refer to the procedure for application set out in paragraph 5.2 of Part 4 of this document. The relevant CREST instructions must have settled in accordance with the instructions in paragraph 5.2 of Part 4 of this document by no later than 11.00 a.m. on 23 March 2011.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer.

**If you are in any doubt as to the action you should take, you should immediately seek your own personal financial advice from an independent professional adviser authorised under FSMA, if you**

are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

### ***Savings Plans Participants***

Accompanying this document is a letter addressed to Savings Plans Participants setting out what action they need to take in relation to the proposals described in this document.

### **Further information and risk factors**

Your attention is drawn to the further information set out in Parts 2 to 6 of this document. In addition, your attention is drawn to the section entitled “Risk Factors” on pages 7 to 10 of this document. You are advised to read the whole of this document and the documents incorporated by reference and not to rely solely on the information contained in this letter.

### **Recommendation**

Your Board, which has been so advised by Winterflood Securities, believes that the passing of the Resolution is in the best interests of the Company and the Shareholders as a whole. In providing its advice, Winterflood Securities has taken into account the Board’s commercial assessments of the Placing and Open Offer.

Accordingly, the Board unanimously recommends you to vote in favour of the Resolution to be proposed at the General Meeting irrespective of whether or not you wish to subscribe for CULS under the Open Offer. The Directors, who in aggregate have an interest in 180,597 Ordinary Shares (being 0.28 per cent. of the issued Shares), intend to vote their entire beneficial holdings in favour of the Resolution.

The Directors cannot, and do not, offer any advice or recommendation to Shareholders as to whether to subscribe for CULS under the Open Offer. If you need advice, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised under the Financial Services and Markets Act 2000 without delay.

Yours faithfully

Donald MacDonald  
*Chairman*

## PART 2

### INFORMATION ON THE COMPANY

#### The Company

Standard Life UK Smaller Companies Trust plc is an investment trust which was launched in 1993 and whose assets are managed by Standard Life Investments (Corporate Funds) Limited. The Company invests in UK quoted smaller companies. The Company currently has a single class of ordinary shares in issue, which are listed on the Official List with a Premium Listing and are traded on the Main Market. The Company has an indefinite life.

As at 28 February 2011, the Company has gross assets of £152.5 million, 63,722,556 Ordinary Shares in issue and shareholders' funds of £138.5 million.

#### Investment policy

##### *Current investment policy of the Company*

The Company's investment objective is to achieve long-term capital growth by investment in UK quoted smaller companies.

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK quoted smaller companies. The portfolio will normally comprise around 50 individual holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5 per cent. of total assets at the time of acquisition.

The Directors expect that, in normal market conditions, gearing will not exceed 20 per cent. of net assets. The maximum level of gearing will be 100 per cent. of net assets. The Directors have delegated responsibility to the Investment Manager for the operation of the gearing level within the above parameters.

The Investment Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management and dealing. The investment process is research intensive and is driven by the Investment Manager's distinctive "focus on change" which recognises that different factors drive individual stocks and markets at different times in the cycle. This flexible, but disciplined, process ensures that the Investment Manager has the opportunity to perform in different market conditions.

##### *Proposed amendment to the investment policy of the Company*

Subject to Shareholder approval at the General Meeting, it is proposed that the Company's investment policy will be changed to the following:

"The Company's investment objective is to achieve long-term capital growth by investment in UK quoted smaller companies.

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK quoted smaller companies. The portfolio will normally comprise around 50 individual holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5 per cent. of total assets at the time of acquisition.

*The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating investment risks in its investments in order to protect the Company's portfolio). The Directors expect that gearing will not exceed 25 per cent. of net assets at the time of drawdown. The maximum level of gearing will be 100 per cent. of net assets at the time of drawdown. The Directors have delegated responsibility to the Investment Manager for the operation of the gearing level within the above parameters.*

The Investment Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management and dealing. The investment process is research intensive and is driven by the Investment Manager's distinctive "focus on change" which recognises that different factors

drive individual stocks and markets at different times in the cycle. This flexible, but disciplined, process ensures that the Investment Manager has the opportunity to perform in different market conditions.”

The Company will also continue to be subject to the investment limitations imposed on closed-ended investment funds with a Premium Listing under the Listing Rules described in paragraph 14 of Part 6 of this document.

### ***Dividend policy***

The Company typically pays a final dividend of substantially all of its distributable revenue profits in respect of the relevant Financial Year. Dividends are paid at least to the extent required to continue to meet the tests for approval as an investment trust under Chapter 4 of Part 24 of the CTA 2010.

The dividend payable on the Ordinary Shares is based on the net income received during the year.

The Board has declared an Interim Dividend in respect of the six month period ended 31 December 2010 of 1.00 pence per Share which will be paid on 18 March 2011. This dividend will be paid to Ordinary Shareholders on the Register on 11 March 2011.

### **The Directors**

The Directors, all of whom are non-executive and independent of the Investment Manager, are responsible for the determination of the investment policy of the Company and its overall supervision. The Directors are as follows:

***Donald MacDonald, CBE*** was appointed to the Board on 12 July 1993. He is a qualified chartered accountant with more than 40 years of experience in corporate finance and venture capital. He was previously president of the Edinburgh Chamber of Commerce and was depute chairman of Scottish Enterprise Edinburgh and Lothian. He is the co-founder and vice chairman of City Inn Limited, chairman of The Dunfermline Press Group and is chairman of the Scottish Chamber Orchestra.

***Carol Ferguson*** was appointed to the Board on 4 February 2009. She is a chartered accountant and has more than 30 years' experience in the investment and financial services industry. She began her investment career with Ivory & Sime before moving to Wood Mackenzie & Co, stockbrokers, becoming a partner in 1984. She was formerly the finance director of Timney Fowler, a textiles company, and is currently a non-executive director of BlackRock Greater Europe Investment Trust plc, Invesco Asia Trust plc, Monks Investment Trust plc, Vernalis plc and the Chartered Accountants Compensation Scheme Limited. Carol is also a past chairman of The Association of Investment Companies.

***Lynn Ruddick*** was appointed to the Board on 4 February 2009. She retired as a Managing Director of Merrill Lynch Investment Managers in 2004 where she headed the company's investment trust business unit. Lynn is the chairman of British Assets Trust plc and Fidelity Special Values plc and a non-executive director of BlackRock Frontiers Investment Trust PLC. She is also a trustee board director of the Scottish & Newcastle Pension Plan, a member of the investment committees of The Pearson Group Pension Plan and Western Provident Association and chairman of the WPA Pension Fund Trustee Board. Lynn is a former chairman of the investment committee of the National Association of Pension Funds.

***David Woods*** was appointed to the Board on 5 May 2005. He has spent his career in the insurance industry, holding positions at Equity & Law and Royal Insurance before his appointment as group managing director of The Scottish Provident Institution. David is a fellow of The Institute of Actuaries and is currently the chairman of Royal Liver Assurance and chairman of the five trustee companies which conduct the governance of the UK pension schemes of Steria Limited. He is a director of Murray Income Trust PLC and The Moller Centre for Continuing Education Limited.

### **Investment Manager**

The Company is managed by Standard Life Investments (Corporate Funds) Limited. The Manager is part of Standard Life Investment Limited's group of companies which has £153.7 billion under management as at 30 September 2010.

Standard Life Investments Limited's UK Smaller Company team manages a number of smaller company funds with aggregate assets of £1.7 billion as at 31 December 2010. Standard Life

Investments Limited has won a number of awards for the performance of the Company, including: 2008 Money Observer: Best UK Smaller Companies Trust; and 2007, 2008, 2009 and 2010 “UK Smaller Companies” award; 2010 Investment Week “UK Smaller Companies” category; and 2010 “Investment Provider” 5-star award.

Harry Nimmo, who heads the fund management team for the Company at Standard Life Investments Limited and has been managing the Company’s portfolio since September 2003 when Standard Life Investments was appointed as the Company’s manager, has also won recent awards including 2008 No.1 Citywire Top 100 Fund Manager of the Year and 2008 “Investment Week” Best Smaller Companies Fund. Harry graduated with an MBA from the University of Edinburgh in 1984, joining Standard Life as an Investment Analyst with responsibility for UK equity funds in 1985. He became Senior Investment Analyst with sector responsibility for larger UK quoted company funds in 1990, and Investment Manager in 1993 responsible for the UK equity smaller (quoted) company funds.

## **Investment management, custodian and administration arrangements**

### *Investment management*

Under the Investment Management Agreement the Investment Manager has been appointed with responsibility for the management of the Company’s assets subject to the overall supervision by the Directors. The Investment Manager manages the Company’s assets in accordance with the investment policy referred to above and the policies laid down by the Directors from time to time.

Under the terms of the Investment Management Agreement entered into between the Company and the Investment Manager the annual investment management fee is 0.65 per cent. of the gross asset value of the Company. The fee on uninvested cash and cash equivalents is 0.20 per cent. per annum.

A performance fee is also payable if the Company out-performs its benchmark on a capital returns basis by at least 1 per cent. per annum. The amount of the performance fee will be 20 per cent. per annum of the Company’s out-performance, capped at 0.6 per cent. per annum of the Company’s gross assets. The Company’s benchmark is the Hoare Govett Smaller Companies (ex investment companies) capital return index. The performance fee will be subject to protections in respect of under performance as follows. The performance fee is subject to a high water mark such that if the NAV per Ordinary Share at the end of the relevant period is less than the NAV per Ordinary Share at the start of the Financial Year two years prior to the current year, increased at an annualised rate of 1 per cent. per annum above the benchmark, no performance fee is payable (i.e. over a three year rolling period).

The Company is not proposing to change the management fees, payable to the Manager, as a result of the Issue. Please refer to paragraph 7.1 of Part 6 of this document for further details on the Investment Management Agreement.

### *Custodian*

BNP Paribas acts as custodian of the Company’s assets and in that capacity is responsible for ensuring their safe custody and for dealing with settlement arrangements. The assets are held in nominee accounts by BNP Paribas as agent for the Company.

### *Administration*

Aberdeen Asset Management PLC acts as administrator and company secretary of the Company. Please refer to paragraph 7.1 of Part 6 of this document for further details.

## **Annual expenses**

The Company has incurred, and will continue to incur, in addition to those set out above, administrative expenses including, *inter alia*, audit fees, Directors’ fees, custodian fees, regulatory fees, directors’ insurance premiums, marketing fees and printing costs. For the Financial Year ended 30 June 2010, these fees and expenses amounted to £398,000 (including VAT). If the Placing and Open Offer are fully subscribed, these fees and expenses for the current Financial Year ending 30 June 2011 are estimated to amount to £430,000 (including VAT). For the avoidance of doubt, such expenses exclude the costs of the Issue and the coupon payable on the CULS.

## PART 3

### DETAILS OF THE CULS

The 3.5 per cent. Convertible Unsecured Loan Stock 2018 of the Company in a nominal amount of up to £25 million (subject to an option for a further £5 million in aggregate nominal amount of CULS) will be created by a resolution of the Board of the Company (or a duly authorised committee thereof) and will be constituted as an unsecured subordinated obligation of the Company by the Trust Deed between the Company and The Law Debenture Trust Corporation p.l.c., whose registered office is at Fifth Floor, 100 Wood Street, London EC2V 7EX, as trustee for the CULS Holders. Copies of the Trust Deed, when executed, will be available for inspection by CULS Holders at the registered office for the time being of the Company, being at the date of publication of this document 40 Princes Street, Edinburgh EH2 2BY.

The Trust Deed will contain provisions, *inter alia*, to the following effect:

#### 1. Definitions

In addition to the defined terms set out in the Definitions section on pages 15 to 19 of this document, the following additional definitions apply for the purposes of this Part 3.

“equity share capital”	equity share capital as defined in section 548 of the Act;
“Further CULS”	further unsecured loan stock of the Company issued pursuant to the provisions described in paragraph 10 below and constituted by the Trust Deed;
“Independent Financial Adviser”	a financial adviser (which may, for the avoidance of doubt, be the Company’s auditors or brokers) appointed by the Company and approved in writing by the Trustee or, if the Company fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee), appointed by the Trustee following notification to the Company and provided that the Trustee has no obligation to make such appointment unless it has been indemnified and/or provided with security and/ or pre-funded to its satisfaction in respect of all costs, fees and expenses of such adviser and of the Trustee in connection with such appointment;
“Relevant Electronic System”	any computer-based system enabling title to units of CULS to be evidenced and transferred without a written instrument; and
“Subsidiary”	any company which is for the time being a subsidiary (within the meaning of section 1159 of the Act).

#### 2. Interest

- 2.1. The CULS will bear interest on its nominal amount for the time being outstanding from (and including) the date of Admission of the CULS (the “Issue Date”) at the rate of 3.5 per cent. per annum. Interest (less United Kingdom income tax where applicable or any other deduction or withholding required by law) will be payable on the CULS semi-annually in equal instalments in arrears on 30 September and 31 March in each year (each an “Interest Payment Date”), save that the first payment of interest on the CULS will be made on 30 September 2011 in respect of the period from (and including) Admission to (but excluding) 30 September 2011 and the final payment of interest on the CULS will be in respect of the period from (and including) 30 September 2017 to (but excluding) the date of final repayment of the CULS (the “Final Repayment Date”).
- 2.2. The amount of interest payable in respect of any period which is either shorter or longer than a Regular Period (as defined below) shall be calculated at the rate of 3.5 per cent. per annum on the basis of the number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the product of (a) 2 and (b) the



number of days in the Regular Period in which the relevant period falls. "Regular Period" means each period from (and including) any Interest Payment Date to (but excluding) the next Interest Payment Date, save that for the purposes of this definition only the first Interest Payment Date shall be deemed to be 30 September 2011 and the last Interest Payment Date shall be deemed to be 31 March 2018.

### 3. Conversion

- 3.1. Each CULS Holder (and, for the purposes of paragraph 3.13, the Trustee on his behalf) shall (on and subject to the provisions hereinafter mentioned) have the right (a "Conversion Right" and together the "Conversion Rights") to convert the whole or such part (being an integral multiple of £1 nominal) of his CULS as he may specify into fully paid Ordinary Shares. The number of Ordinary Shares to be issued by the Company on exercise of a Conversion Right shall be determined by dividing the nominal amount of CULS to be converted by the conversion price in effect on the relevant Conversion Date (as defined in paragraph 3.2 below) (the "Conversion Price"). The initial Conversion Price for one Ordinary Share (which shall be subject to adjustment in the circumstances described in paragraph 4 below) shall be equal to:

$$CP = NAV \times 1.10$$

CP is the Conversion Price for one Ordinary Share expressed to four decimal places;

NAV is the amount (expressed in pence to four decimal places) equal to the NAV per Ordinary Share at the close of business on 23 March 2011;

The Company will announce the initial Conversion Price to an RIS as soon as practicable following its calculation.

- 3.2. The Conversion Rights shall be exercisable (in the manner described in paragraph 3.3 or paragraph 3.4 below, as applicable) at any time during the periods of 28 days ending on 30 September and 31 March in each year commencing 30 September 2011 and ending March 2018 (each such period and any other period during which Conversion Rights may be exercised a "Conversion Period") so as to be received by 5.00 p.m. on the last day of the relevant Conversion Period (each such last day a "Conversion Date" and the Conversion Date falling on 31 March 2018 (or Final Repayment Date) the "Final Conversion Date").
- 3.3. In order to exercise, in whole or in part, the Conversion Rights which are conferred by any CULS that are on the relevant Conversion Date in certificated form, the CULS Holder must lodge the relevant CULS certificate(s) (or such other document(s) as the Company may, in its absolute discretion, accept) at the office of the registrars for the time being of the Company (the Registrars) specified in the certificate (or at such other place as the Company may from time to time notify to CULS Holders) during the relevant Conversion Period, having completed and signed the notice of exercise of Conversion Rights thereon (or by giving such other notice of exercise of Conversion Rights as the Company may, in its absolute discretion, accept). The Company may (at its sole discretion) accept as valid notices of exercise of Conversion Rights which are received after the relevant Conversion Date. Once lodged, a notice of exercise of Conversion Rights shall be irrevocable, save with the consent of the Company. Compliance must also be made with any statutory and regulatory requirements for the time being applicable.
- 3.4. The Conversion Rights which are conferred by any CULS that are on the relevant Conversion Date in uncertificated form shall be exercisable, in whole or in part, (and treated by the Company as exercised) on that Conversion Date if an Uncertificated Conversion Notice is received as referred to below during the relevant Conversion Period (but not later than the latest time for input of the instruction permitted by the Relevant Electronic System on that date) by the Company (or by such person as it may require for such purposes) in such form and subject to such terms and conditions as may from time to time be prescribed by the Company (subject always to the CREST Regulations and the facilities, rules and requirements of the Relevant Electronic System concerned). For these purposes, an "Uncertificated Conversion Notice" shall mean a properly authenticated dematerialised instruction and/or other instruction or notification received by the Company (or by such person as it may require for these purposes) in such form and subject to such terms and conditions as may from time to time be prescribed by the Company (subject always to the CREST Regulations and the facilities, rules and requirements

- of the Relevant Electronic System) and that specifies (in accordance with the form prescribed by the Company as aforesaid) the nominal amount of CULS in respect of which the Conversion Rights are being exercised. The Company may, in addition but subject to the CREST Regulations and the facilities and requirements of the Relevant Electronic System, determine when any such properly authenticated dematerialised instruction and/or other instruction or notification is to be treated as received by the Company (or by such person as it may require for these purposes). Without prejudice to the generality of the foregoing, the effect of an Uncertificated Conversion Notice may be such as to divest the holder of the CULS concerned of the power to transfer such CULS to another person. Once lodged, an Uncertificated Conversion Notice shall be irrevocable, save with the consent of the Company. Compliance must also be made with any statutory and regulatory requirements for the time being applicable.
- 3.5. Fractions of Ordinary Shares will not be issued on exercise of Conversion Rights, and no payment of cash or other adjustment will be made in lieu thereof.
  - 3.6. Ordinary Shares allotted pursuant to the exercise of Conversion Rights which are conferred by any CULS that are in certificated form will be allotted not later than 14 days after, and with effect from, the relevant Conversion Date. Certificates in respect of such Ordinary Shares will be despatched free of charge (at the risk of the person(s) entitled thereto) not later than 28 days after the relevant Conversion Date to the person(s) in whose name(s) the CULS are registered at the date of exercise (and, if more than one, to the first-named, which shall be sufficient despatch for all) or (subject as provided by law and to the payment of stamp duty reserve tax or any other tax that may be applicable) to such other person(s) (not being more than four in number) as may be named in the form of nomination available for the purpose from the Registrars (and, if more than one, to the first-named, which shall be sufficient despatch for all). In the event of partial exercise of the Conversion Rights evidenced by a CULS certificate, the Company shall, at the same time, issue a new CULS certificate in the name of the holder for any balance of that holder's CULS not converted.
  - 3.7. Ordinary Shares allotted pursuant to the exercise of Conversion Rights which are conferred by any CULS that are in uncertificated form will be allotted not later than 14 days after, and with effect from, the relevant Conversion Date. The Company shall procure that the appropriate instructions are given to enable such Ordinary Shares to be evidenced by means of the Relevant Electronic System as a holding of the person(s) in whose name(s) the CULS in respect of which Conversion Rights have been exercised were registered at the date of such exercise or (subject as provided by law, to the payment of stamp duty reserve tax or any other tax that may be applicable, to such terms and conditions as the Company may from time to time prescribe for this purpose and to the CREST Regulations and the facilities, rules and requirements of the Relevant Electronic System) to such other person(s) (not being more than four in number) as may be named in the properly authenticated dematerialised instruction and/or other instruction or notification in such form.
  - 3.8. For the avoidance of doubt, unless the Company otherwise determines or unless the CREST Regulations or the facilities, rules or requirements of the Relevant Electronic System otherwise require, the Ordinary Shares issued on the exercise of any Conversion Rights shall be issued in certificated form where such Conversion Rights were conferred by CULS which were held in certificated form and in uncertificated form where such Conversion Rights were conferred by CULS which were held in uncertificated form.
  - 3.9. Ordinary Shares allotted pursuant to the exercise of Conversion Rights will be allotted credited as fully paid. Such shares will not rank for any dividends or other distributions declared, paid or made on the Ordinary Shares by reference to a record date before the relevant Conversion Date, but, subject thereto, will rank in full for all dividends and other distributions declared, paid or made on the Ordinary Shares by reference to a record date on or after the relevant Conversion Date and otherwise will rank *pari passu* in all other respects, and form one class, with the Ordinary Shares in issue at the relevant Conversion Date.
  - 3.10. Without prejudice to the generality of the final sentence of paragraphs 3.3 and 3.4 above, the exercise of Conversion Rights by any CULS Holder whose registered address is in an Excluded Jurisdiction or who is a citizen or national of, or resident in, an Excluded Jurisdiction or a custodian, nominee or trustee for a citizen or national of, or a resident in, an Excluded

Jurisdiction (including without limitation any US Person), and the right of such a CULS Holder to receive the Ordinary Shares falling to be issued to him following the exercise of his Conversion Rights, will be subject to such requirements, conditions, restrictions, limitations or prohibitions as the Company may at any time impose, in its absolute discretion, for the purpose of complying with any applicable securities laws of the relevant jurisdiction, which, in the case of the United States, shall include the Securities Act, the Investment Company Act and any rules or regulations promulgated under such Acts. As used herein, US Person means any person or entity defined as such in Rule 902 (k) under the Securities Act and, without limiting the generality of the foregoing, US Person includes a natural person resident in the United States, a corporation or partnership organised or incorporated under the laws of the United States (including any State thereof) and an estate or trust of which any executor, administrator or trustee is a US Person, but shall not include a branch or agency of a US Person located outside the United States if such agency or branch operates for valid business reasons and is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located.

- 3.11. Interest on CULS converted shall be payable up to (but excluding) the relevant Conversion Date (whether or not that is an Interest Payment Date), but shall cease to accrue immediately thereafter.
- 3.12. (a) If any offer is made to all (or as nearly as may be practicable all) the Ordinary Shareholders (or to all (or as nearly as may be practicable all) such holders other than the offeror and/or any company controlled by the offeror and/or persons associated, connected or acting in concert with the offeror) to acquire the whole or any part of the Ordinary Shares (an Offer) and the Company becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or any company controlled by the offeror and/or persons associated, connected or acting in concert with the offeror, the Company shall give notice of that fact in writing (in a form previously approved in writing by the Trustee) (a "Change of Control Notice") to all CULS Holders within 14 days of its becoming so aware. The publication of a scheme of arrangement under the Act providing for the acquisition by any person of the whole or any part of the Ordinary Shares shall be deemed to be the making of an Offer.
- (b) If an offer, proposal, scheme or other arrangement which is on terms as to consideration which are, in the opinion of an Independent Financial Adviser, fair and reasonable (having regard to the terms of the Conversion Rights and the period during which they may be exercised and to the terms of such Offer and any other circumstances which may appear to such Independent Financial Adviser to be relevant) (a "Comparable CULS Offer") has already been, or not later than 30 days after the date of such Change of Control Notice is, made or put to CULS Holders, then the Company shall forthwith thereafter give further notice in writing of that fact (in a form previously approved in writing by the Trustee) (a "Comparable CULS Offer Notice") to all CULS Holders, and each CULS Holder may, by giving written notice to the Company (in a form previously approved in writing by the Trustee) within 30 days after service of a Comparable CULS Offer Notice require the Company to repay the whole or any part (being an integral multiple of £1 nominal) of his CULS at their nominal amount together with accrued interest up to (but excluding) the date specified in the Comparable CULS Offer Notice (which date shall be a date falling not less than 8 weeks and not more than 10 weeks following the date of the Comparable CULS Offer Notice), in which event the Company shall be bound to repay such CULS together with accrued interest accordingly.
- (c) If no Comparable CULS Offer is made within 30 days after the date of a Change of Control Notice, the Company shall forthwith give notice in writing of that fact (in a form previously approved in writing by the Trustee) (a "Default Notice") to all CULS Holders, and each CULS Holder shall have the right, by giving written notice to the Company (in a form previously approved in writing by the Trustee) within 30 days after service of such Default Notice, (i) to require the Company to repay the whole or any part (being an integral multiple of £1 nominal) of his CULS at their nominal amount together with accrued interest up to (but excluding) the date specified in the Default Notice (which date shall be a date

falling not less than 8 weeks and not more than 10 weeks following the date of the Default Notice), in which event the Company shall be bound to repay such CULS together with accrued interest accordingly, and/or (ii) to exercise his Conversion Rights in respect of the whole or any part (being an integral multiple of £1 nominal) of his CULS as he may specify (and so that for this purpose such 30-day period shall be deemed to be a Conversion Period, the last day thereof shall be deemed to be a Conversion Date and the provisions of paragraph 3.11 above shall apply accordingly) at the Conversion Rate applicable on such deemed Conversion Date.

- 3.13. Notwithstanding the provisions of paragraph 3.2, the Trustee may, at its absolute discretion and without any responsibility for any loss occasioned thereby, at any time during the period of 10 days before the date of final redemption of the CULS (being the final maturity date of the CULS or such earlier date as all CULS then outstanding shall be due to be redeemed by the Company), exercise all Conversion Rights not exercised by CULS Holders on or before the Final Conversion Date at the Conversion Price applicable on the Final Conversion Date and sell for the benefit of the CULS Holders entitled thereto the Ordinary Shares allotted on such conversion, provided that the Trustee shall not exercise such Conversion Rights unless an Independent Financial Adviser (acting as an expert and not an arbitrator) shall have stated in writing that in its opinion the exercise of such Conversion Rights and prompt sale by the Trustee would be in the interests of the CULS Holders concerned as a body. The date of exercise of such Conversion Rights shall be deemed to be a Conversion Date, and the provisions of paragraph 3.11 above shall apply accordingly.
- 3.14. Following the first Conversion Date at which, taking into account all Conversion Rights exercised on or before that date, 80 per cent. or more in nominal amount of the CULS (which expression for the purpose of this paragraph 3.14 shall include the whole of the original nominal amount of the CULS issued and any Further CULS forming a single series therewith but exclude any of the CULS or such Further CULS purchased by the Company or any subsidiary of the Company and cancelled) shall have been converted or shall otherwise have ceased to be in issue, the Company shall be entitled within 30 days after that or any subsequent Conversion Date to give not less than 30 nor more than 60 days' notice in writing (in a form previously approved in writing by the Trustee) (a "Compulsory Conversion Notice") to all CULS Holders requiring them to convert, on the expiry date of such Compulsory Conversion Notice, the whole (but not part only) of the CULS then outstanding into Ordinary Shares at the Conversion Price applicable on such expiry date and in the event of such notice being given as aforesaid the holding of CULS of each CULS Holder shall, subject as hereafter provided in this paragraph 3.14, be automatically converted at such Conversion Price on such expiry date (and so that for this purpose such expiry date shall be deemed to be a Conversion Date and the provisions of paragraph 3.11 above shall apply accordingly), provided that each CULS Holder shall have the right, by giving written notice to the Company in accordance with this paragraph within 30 days after the service of a Compulsory Conversion Notice, to require the Company, in lieu of converting, to repay the whole (or such part as he may in such notice specify) of his CULS at their nominal amount on the expiry date of the Compulsory Conversion Notice together with interest accrued up to (but excluding) such date, in which event the Company shall be bound to repay such CULS together with accrued interest accordingly. Within 30 days of the delivery of a Compulsory Conversion Notice, each CULS Holder not requiring repayment of the whole of his CULS must either deliver to the Registrars a completed and signed conversion notice(s) on his relevant CULS certificate(s) or lodge an Uncertificated Conversion Notice (as the case may be). No Compulsory Conversion Notice may be given by the Company if it would expire after the date for redemption of the CULS.

#### **4. Adjustments of the Conversion Price**

- 4.1. The Conversion Price shall from time to time be adjusted in accordance with the provisions of this paragraph 4:
- (a) *Consolidation, sub-division or reclassification of Ordinary Shares*  
If and whenever there shall be an alteration on a date (or by reference to a record date) on or before the final maturity date of the CULS in the nominal amount of the Ordinary Shares as a result of a consolidation, sub-division or reclassification thereof, the

Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

- A is the nominal amount of one Ordinary Share immediately after such alteration; and
- B is the nominal amount of one Ordinary Share immediately before such alteration. Such adjustment shall become effective on the date the alteration takes effect.

(b) *Capitalisation issue*

If and whenever the Company shall allot to holders of Ordinary Shares any Ordinary Shares credited as fully paid by way of capitalisation of reserves or profits (including any share premium account or capital redemption reserve) other than Ordinary Shares (in an amount equal to the amount of the cash dividend foregone) paid up out of distributable reserves and issued in lieu of a cash dividend on a date (or by reference to a date) on or before the final maturity date of the CULS, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate nominal amount of the issued Ordinary Shares immediately before such issue; and
- B is the aggregate nominal amount of the issued Ordinary Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

(c) *Other adjusting circumstances*

If and whenever on a date (or by reference to a record date) on or before the final maturity date of the CULS:

- (i) the Company shall issue Ordinary Shares to Ordinary Shareholders as a class by way of rights, or issue or grant to Ordinary Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Ordinary Shares; or
- (ii) the Company shall issue any securities (other than Ordinary Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire any Ordinary Shares) to Ordinary Shareholders as a class by way of rights or grant to Ordinary Shareholders as a class by way of rights any options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than aforesaid); or
- (iii) the Company shall issue (otherwise than as mentioned in sub-paragraph (i) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on exercise of Conversion Rights) or issue or grant (otherwise than as mentioned in sub-paragraph (i) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for, purchase or otherwise acquire any Ordinary Shares (other than the CULS, which term for this purpose shall include any Further CULS); or
- (iv) the Company or any subsidiary of the Company or (at the direction or request of, or pursuant to any arrangements with, the Company or any subsidiary of the Company) any other company, person or entity (otherwise than as mentioned in

sub-paragraphs (i), (ii) or (iii) above) shall issue wholly for cash or for no consideration any securities (other than the CULS, which term for this purpose shall include any Further CULS) which by their terms of issue carry (directly or indirectly), rights of conversion into, or exchange or subscription for Ordinary Shares (or shall grant any such rights in respect of existing securities so issued) or securities which by their terms might be redesignated as Ordinary Shares; or

- (v) there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such securities (other than the CULS, which term shall for this purpose include any Further CULS) other than in accordance with the terms (including terms as to adjustment) applicable to such securities on issue; or
- (vi) one or more other circumstances not referred to in sub-paragraphs (i) to (v) above shall occur,

and, in each such case, the result of such event or circumstance (whether by reason of the terms of issue, the consideration received or payable on exercise of the relevant rights or otherwise) is or may be dilutive of the value of the Conversion Rights, then in order to protect the value of the Conversion Rights following such event or circumstance the Company shall promptly notify the Trustee in writing of the relevant event or circumstance and the Company shall, at its own expense, request an Independent Financial Adviser to determine in good faith as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect, and on such determination such adjustment (if any) to the Conversion Price shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph 4.1(c) if the Company makes such a request of an Independent Financial Adviser not more than 20 business days after the date on which the relevant event or circumstance occurs or arises.

- (d) For the avoidance of doubt the issue of Ordinary Shares pursuant to the exercise of the Conversion Rights shall not result in an adjustment to the Conversion Price.
  - (e) No adjustment will be made to the Conversion Price pursuant to paragraphs 4.1(a), (b) or (c) above (other than by reason of and to reflect a consolidation of Ordinary Shares as referred to in paragraph 4.1(a) above) if it would result in an increase in the Conversion Price.
  - (f) If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Company and an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price shall be conclusive and binding on all concerned, save in the case of manifest error.
- 4.2. All adjustments to the Conversion Price shall be rounded upwards if necessary to four decimal places. The Company will forthwith notify the CULS Holders in writing (in a form previously approved in writing by the Trustee) of any adjustment to the Conversion Price pursuant to paragraph 4.1 above.
- 4.3. The Trustee shall not be under any duty or obligation to monitor whether any event or circumstance has happened or exists pursuant to paragraph 4.1 above and it may assume until it has actual knowledge by way of express notice in writing from the Company to the contrary that no such event or circumstance has occurred and will not be responsible to any party for any loss arising from any failure by it to do so. The Trustee shall not at any time be under any duty or responsibility to any CULS Holder with respect to the nature or the extent of any adjustment to the Conversion Price when made, or with respect to the method employed in making the same.

## 5. Undertakings

- 5.1. While any Conversion Rights remain capable of exercise by any CULS Holder or the Trustee, save with the previous sanction of an extraordinary resolution of the CULS Holders within the meaning of the Trust Deed (an "Extraordinary Resolution") or with the prior approval of the Trustee where, in the Trustee's opinion, it is not materially prejudicial to the interests of the CULS Holders to give such approval, the Company shall use all reasonable endeavours:
- (a) to procure that (i) the CULS and (ii) the Ordinary Shares which are fully paid shall at all times remain admitted to the Official List and to trading on the Main Market; and
  - (b) to ensure that during such time as the Ordinary Shares are admitted to the Official List and to trading on the Main Market and/or listed or quoted on any other stock exchange all the Ordinary Shares allotted on exercise of Conversion Rights will, on allotment, be admitted to the Official List and to trading on the Main Market and/or be listed or quoted on such other stock exchange.
- 5.2. While any Conversion Rights remain capable of exercise by any CULS Holder or the Trustee, subject as provided in paragraph 5.8 below and save with the sanction of an Extraordinary Resolution or with the approval of the Trustee where, in the Trustee's opinion, it is not materially prejudicial to the interests of the CULS Holders to give such approval, the Company shall not:
- (a) save as permitted by sub-paragraph 5.2(f) below, distribute capital profits (whether realised or not) or capital reserves (including any share premium account or capital redemption reserve) or profits or reserves arising from a distribution of capital profits (whether realised or not) or capital reserves (including as aforesaid) by a subsidiary of the Company except by means of a capitalisation issue permitted under sub-paragraph 5.2(b) below, and so that for the purposes of this sub-paragraph 5.2(a) and insofar as the relevant audited accounts do not distinguish between capital and revenue profits or reserves the Company and the Trustee shall be entitled to rely on a written estimate (whether or not addressed to the Trustee) by the Auditors (as defined in the Trust Deed) as to the extent (if any) to which any part of any profits or reserves should be regarded as capital profits or capital reserves;
  - (b) capitalise any profits or reserves other than by way of a capitalisation issue made only to the Ordinary Shareholders in the form of fully paid Ordinary Shares and (if so extended) in like proportions to the holders of any other class of equity share capital of the Company in the form of fully paid Ordinary Shares or shares of such other class of equity share capital or for the purposes of a scrip dividend where permitted under sub-paragraph 4.1(b) above without adjustment to the Conversion Price;
  - (c) make or permit any subsidiary of the Company to make any offer or invitation to Ordinary Shareholders or allot any Ordinary Shares in pursuance of a capitalisation issue, in each case during, or by reference to a record date falling within, a Conversion Period or following a Conversion Period by reference to a record date prior to such Conversion Period;
  - (d) save as permitted by sub-paragraphs (a), (b) or (c) of this paragraph 5.2, create or permit to be in issue any equity share capital which as regards voting, dividends, other distributions or capital has more favourable rights than those attached to the Ordinary Shares;
  - (e) do any act or thing if, in consequence thereof, the nominal amount of Ordinary Shares into which £0.25 nominal of CULS would be convertible would exceed 25p;
  - (f) subject to, and as permitted by, paragraph 5.8 below, the Company shall not (except as authorised by section 663 of the Act or, in respect of redeemable shares and shares purchased by it, by sections 684, 691, 692 and 706 of the Act) reduce its share capital or any uncalled or unpaid liability in respect thereof or (except as authorised by sections 610, 687 and 733 of the Act) any amount for the time being standing to the credit of any share premium account or capital redemption reserve or purchase any of its own shares unless in any such case such adjustment (if any) is made to the Conversion Price as shall be determined by an Independent Financial Adviser to be appropriate, provided that the

Company shall not be restricted by this sub-paragraph 5.2(f) from reducing or cancelling its share premium account or share capital where such reduction or cancellation does not involve a payment to shareholders but instead results in the creation of a special reserve in the Company's balance sheet.

- 5.3. If the Company commences liquidation (whether voluntary or compulsory), it shall forthwith give notice in writing thereof (in a form previously approved in writing by the Trustee) to all CULS Holders, and thereupon each CULS Holder shall in respect of the whole or any part (being an integral multiple of £1 nominal) of his CULS be entitled within 4 weeks after the service of such notice to elect by notice in writing to the Company to be treated as if a Conversion Date had occurred on the day immediately preceding the date of such commencement and his Conversion Rights had been exercisable and had been exercised in full with effect on that date on the basis of conversion (including the Conversion Price) then applicable (after making any appropriate adjustment pursuant to paragraph 4.1 above). In that event, subject as hereafter provided in this paragraph 5.3, each CULS Holder making such an election shall, in lieu of the payments which would otherwise be due in respect of his CULS deemed to have been converted as a result of such election, be entitled to participate in the assets available in the liquidation *pari passu* with the Ordinary Shareholders (after giving effect to the rights of any other securities carrying rights to participate in the assets of the Company available on a liquidation) as if he were the holder of the Ordinary Shares (including any fraction of an Ordinary Share) to which he would have become entitled had the CULS in respect of which he shall have made such election been converted as aforesaid by virtue of such exercise at such deemed Conversion Date. Notwithstanding the foregoing, a CULS Holder making such an election shall be entitled to receive and retain any payment in respect of the CULS in relation to which he shall have made such election which shall have become due on or prior to such immediately preceding day as though he had not made such election. For the purpose of determining the assets in which any CULS Holder making an election as aforesaid shall be entitled to participate, the provisions of paragraph 3.11 above shall be deemed to apply as if such immediately preceding day were the Conversion Date, provided that if such CULS Holder shall receive any payment on the CULS in relation to which he shall have made such election in respect of interest falling due on the CULS on any day after such immediately preceding day up to and including the date of service of the aforesaid notice by the Company, he shall be entitled to retain such payment. If, at any time, the Company posts a notice to its Ordinary Shareholders convening a meeting at which a resolution will be proposed to wind up the Company, it may at the same time give notice in writing to all CULS Holders (in a form previously approved in writing by the Trustee), in which event the period of 4 weeks referred to above shall commence on the date of such notice and a CULS Holder shall, in respect of the whole or any part (being an integral multiple of £1 nominal) of his CULS, be entitled to elect within that period by notice in writing to the Company that, if such resolution is passed, he should be treated as if a Conversion Date had occurred on the day immediately preceding the date on which such resolution is passed and his Conversion Rights had been exercisable and had been exercised in full with effect on that date on the same basis *mutatis mutandis* as is referred to above (and, for the avoidance of doubt, if the Company shall give notice to CULS Holders as referred to in this sentence, no further notice shall be given to CULS Holders under this paragraph 5.3 on commencement of the liquidation). Subject to this paragraph 5.3, the Conversion Rights shall lapse in the event of the liquidation of the Company.
- 5.4. If the CULS shall become immediately due and repayable in accordance with the provisions of the Trust Deed (for any reason other than the liquidation of the Company), the Company shall forthwith give notice thereof to all CULS Holders (in a form previously approved in writing by the Trustee), and thereupon each CULS Holder shall in respect of the whole or any part (being an integral multiple of £1 nominal) of his CULS be entitled within the period of 6 weeks after the service of such notice to exercise his Conversion Rights (such exercise to be with effect as on the day immediately preceding the date on which the CULS shall have become so due and repayable, which day shall be deemed to be a Conversion Date) on the basis of conversion (including the Conversion Price) then applicable (after making any appropriate adjustments pursuant to paragraph 4.1 above) by completing and signing the conversion notice(s) on his relevant CULS certificate(s) and depositing the same at the office of the Registrars or lodging an Uncertificated Conversion Notice (as the case may be), in each case before the expiry of such period of 6 weeks.



- 5.5. The Company shall keep available for issue sufficient authorised but unissued Ordinary Share capital to satisfy in full all rights for the time being outstanding of conversion into, subscription for and other acquisition of, Ordinary Shares, including without limitation the rights conferred by the CULS.
- 5.6. The Company shall send to all CULS Holders a copy of every document sent by the Company to Ordinary Shareholders at the time the same is sent to Ordinary Shareholders and in addition the Company shall notify all CULS Holders via an RIS not more than 8 weeks and not less than 4 weeks prior to each Conversion Date (other than the deemed Conversion Dates referred to in paragraphs 3.12, 3.13, 3.14 and 5.3 above or paragraph 6.3 below) with a reminder (in a form previously agreed in writing by the Trustee) of the Conversion Rights then exercisable.
- 5.7. While any Conversion Rights remain capable of exercise by any CULS Holder or the Trustee, save with the sanction of an Extraordinary Resolution or with the approval of the Trustee where, in the Trustee's opinion, it is not materially prejudicial to the interests of the CULS Holders to give such approval, the Company shall procure that no compromise or arrangement (to which Part 26 of the Act applies) affecting the Ordinary Shares shall be proposed unless the CULS Holders shall be parties to the compromise or arrangement and unless the compromise or arrangement shall be subject to approval by the CULS Holders in the manner prescribed by section 899 of the Act, provided that these provisions shall not apply (a) if an offer, proposal, scheme or other arrangement which is, in the opinion of an Independent Financial Adviser, fair and reasonable (having regard to the terms of the Conversion Rights and the periods during which they may be exercised and to the terms of such compromise or arrangement and any other circumstances which may appear to such Independent Financial Adviser to be relevant) has already been, or not later than the date on which the document containing particulars of the compromise or arrangement shall first be issued to the parties thereto is, made or put to all CULS Holders, (b) if the Trustee shall be of the opinion that implementation of such compromise or arrangement will not be prejudicial to the interests of the CULS Holders or (c) to a scheme of arrangement to which paragraph 3.12 above applies.
- 5.8. Nothing in the Trust Deed shall restrict the Company from making purchases of its Ordinary Shares at a price per Ordinary Share at or below the NAV per Ordinary Share (as determined by the Directors on a date falling not more than 10 days before the date of purchase).

## **6. Purchase and redemption**

- 6.1. The Company or any subsidiary of the Company may at any time purchase CULS on the London Stock Exchange (if the CULS are then admitted to the Official List and to trading on the Main Market) or on any other recognised stock exchange on which the CULS are for the time being listed or quoted or by tender (available to all CULS Holders alike) or by private treaty. If the CULS are admitted to the Official List and to trading on the Main Market, and unless the purchase is by way of tender or partial offer made to all holders of CULS on the same terms, any purchase of CULS by the Company or any subsidiary of the Company shall be at a price (exclusive of all costs of purchase) which shall not exceed the aggregate of (a) 5 per cent. above the average of the middle market quotations for the CULS (as derived from the Stock Exchange Daily Official List) for the 5 consecutive dealing days immediately preceding the date on which the purchase is made and (b) accrued interest (or at such other price as may be permitted by the Listing Rules). If the CULS are not admitted to the Official List and to trading on the Main Market, the price of any purchase of CULS by the Company or any subsidiary of the Company shall not exceed 110 per cent. of the nominal amount thereof.
- 6.2. All CULS not previously redeemed, purchased or converted in accordance with any of the foregoing provisions will be redeemed by the Company on 31 March 2018 at its nominal amount, together with interest accrued up to (but excluding) the date of final repayment of the CULS.
- 6.3. If the middle market price of an Ordinary Share (as derived from the Stock Exchange Daily Official List or any other record of daily prices approved in writing by the Trustee) for at least 20 dealing days (on the Main Market) during any period of 30 consecutive dealing days ending on or at any time after 31 March 2016 is at least 30 per cent. or more above the Conversion Price prevailing at the end of such period, the Company may, no later than 30 days after the end of

such period, serve notice (in a form previously approved in writing by the Trustee) on the CULS Holders pursuant to this paragraph 6.3 that all CULS not converted pursuant to this paragraph 6.3 to be redeemed on the redemption date specified in the notice (which shall be a date falling not less than 7 weeks nor more than 10 weeks following the date of that notice). Each CULS Holder shall be entitled within 6 weeks after the date of such notice to exercise his Conversion Rights in respect of the whole or any part (being an integral multiple of £1 nominal) of his CULS as he may specify (and so that for this purpose such 6 week period shall be deemed to be a Conversion Period, the last day thereof shall be deemed to be a Conversion Date and the provisions of paragraph 3.11 above shall apply accordingly) at the Conversion Price applicable on such deemed Conversion Date (after making any appropriate adjustments pursuant to paragraph 4.1 above) by completing and signing the conversion notice(s) on the certificate(s) representing the CULS in respect of which he wishes to exercise his Conversion Rights and delivering such certificate(s) together with a form or forms of nomination (if required) to the Registrars or lodging an Uncertificated Conversion Notice, in each case prior to the expiry of such 6 week period. All, but not part only, of the CULS remaining unconverted after such entitlement has expired shall be redeemed by the Company at its nominal amount, together with interest accrued up to (but excluding) the date of redemption, on the redemption date specified in the notice given by the Company pursuant to this paragraph 6.3. For the purpose of this paragraph 6.3, a certificate signed by two Directors as to the middle market prices of an Ordinary Share (determined as aforesaid) may be relied on by the Trustee as sufficient evidence thereof and, if so relied on, shall (in the absence of manifest error) be binding on all parties.

- 6.4. All CULS redeemed, purchased or converted in accordance with any of the foregoing provisions shall be cancelled and shall not be resold or re-issued.
- 6.5. The Company may exercise its rights and powers of redemption and purchase as regards the CULS and any Further CULS at its sole discretion and without obligation to maintain the ratio between the nominal amounts for the time being outstanding of stock of any series.

## **7. Events of default**

On the occurrence of any of the following events the Trustee may at its discretion and, if requested in writing by CULS Holders holding at least one-quarter in nominal amount of the CULS then outstanding or directed by an Extraordinary Resolution, shall (subject in each case to being indemnified jointly and severally and/or secured and/or pre-funded by CULS Holders to its satisfaction) give written notice to the Company that the CULS are (and it shall thereupon forthwith become) immediately due and repayable at their nominal amount together with accrued interest as provided in the Trust Deed:

- 7.1. if the Company is in default for a period of 30 days or more in the payment on the due date of any interest in respect of the CULS or of any amount due for repayment in accordance with paragraph 3.12(b) or paragraph 3.12(c) above; or
- 7.2. if an order is made or an effective resolution is passed for the winding-up or dissolution of the Company or any subsidiary of the Company (except for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution); or
- 7.3. if:
  - 7.3.1. the Company or any subsidiary of the Company is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or by reason of actual or anticipated financial difficulties commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness; or
  - 7.3.2. the value of the assets of the Company is less than its liabilities (taking into account contingent and prospective liabilities); or
  - 7.3.3. a moratorium is declared in respect of any indebtedness of the Company or any subsidiary of the Company; or
  - 7.3.4. if the Company or any subsidiary of the Company ceases or threatens to cease to carry on the whole or a substantial part of its business, which shall not include (a) a change in

investment objective, policy, performance benchmark or manager, (b) a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution or (c) the winding-up of any subsidiary in accordance with that subsidiary's articles of association; or

- 7.4. if an encumbrancer takes possession or a receiver or administrator or administrative receiver is appointed of the Company or any subsidiary of the Company or of the whole or a substantial part of the assets or undertaking of the Company or any subsidiary of the Company or a distress or execution is levied or enforced on or sued out against the whole or a substantial part of the assets or property of the Company or any subsidiary of the Company and, in each case, is not discharged within 30 days of being levied, enforced or sued out; or
- 7.5. if the Company breaches any of the provisions binding on it under or pursuant to the Trust Deed (other than any covenant for the payment of principal and interest in respect of the CULS) or if any event occurs or any action is taken or fails to be taken which is (or but for the provisions of any applicable law would be) a breach of any of the covenants contained in the Trust Deed and (except where in the opinion of the Trustee the same is not capable of remedy, when no such continuation or notice as is herein provided will be required) the same continues for more than 14 days after receipt by the Company of written notice from the Trustee requiring the same to be remedied; or
- 7.6. if the Company, without the prior written consent of the Trustee or by an Extraordinary Resolution, alters the rights attached to all or any of its Ordinary Shares in issue from time to time or attaches any special rights, privileges or restrictions thereto, or creates or issues any new class of equity share capital other than the Ordinary Shares ranking *pari passu* in all respects (or in all respects except as regards any restriction on their rights to receive dividends or other distributions or on their rights on a return of capital or on their rights to participate in any issue by way of capitalisation of profits or reserves or on their voting rights, which in all such cases make such rights less favourable than those attached to the Ordinary Shares) with the Ordinary Shares, and in each case (except where, in the opinion of the Trustee, such alteration, attachment, creation or issue is not capable of cancellation when no such continuation or notice as is herein provided shall be required) such alteration, attachment, creation or issue shall continue for more than 14 days after written notice requiring such alteration, attachment, creation or issue to be cancelled shall have been given to the Company by the Trustee, provided that nothing in this paragraph 7.6 shall restrict the right of the Company to consolidate or subdivide Ordinary Shares or convert Ordinary Shares into stock or vice versa and no such consolidation, subdivision or conversion shall give rise to any rights under this paragraph 7.

Provided that no such event set out in paragraph 7.2 (in relation to any subsidiary of the Company only) or any of paragraphs 7.3 to 7.6 above (both inclusive) shall constitute an event on the occurrence of which the CULS may become immediately due and repayable unless the Trustee shall have certified in writing that, in its opinion, such event is materially prejudicial to the interests of the CULS Holders.

## **8. Subordination**

The rights and claims of the CULS Holders will, in the event of the winding-up or dissolution of the Company, be subordinated to the claims of creditors in respect of the Company's secured and unsecured borrowings such that, on such winding-up or dissolution, no payments (whether of principal or outstanding or accrued interest) will be made to the CULS Holders until payment in full has been made to all such creditors.

## **9. Denomination and transfer**

The CULS will be denominated, and will be registered and transferable without payment of any fee (excepting all transfer taxes), in integral multiples of £1 nominal. The Trust Deed will contain provisions enabling the CULS to be held and transferred in uncertificated form. The Trustee may, without any sanction of CULS Holders, concur with the Company in making modifications to the provisions of the Trust Deed in order to reflect changes in the CREST Regulations or in the applicable law and practice relating to the holding or transfer of CULS in uncertificated form and the issue of Ordinary Shares in uncertificated form on conversion of CULS.

## **10. Issues of further unsecured loan stock**

Subject to the terms hereof, provision will be made in the Trust Deed to enable further unsecured loan stock (in addition to the CULS issued under the Placing, Open Offer and any further CULS Issue) of the Company to be issued either so as to be identical in all respects with and to form a single series with the CULS or on such terms, including rights as to interest, ranking (but not ranking ahead of the CULS), conversion, premium, repayment and otherwise as the Directors may determine. Such further unsecured loan stock shall, if identical and forming a single series with the CULS, and may in any other case with the consent of the Trustee, be constituted by a trust deed supplemental to the Trust Deed and shall accordingly, if so constituted, be Further CULS. No additional loan capital of the Company or any subsidiary of the Company shall be paid up in whole or in part by way of capitalisation of profits or reserves or be issued by way of collateral security.

## **11. Modification of rights etc.**

- 11.1. CULS Holders will have power by Extraordinary Resolution, *inter alia*, to sanction any modification, abrogation or compromise of or arrangement in respect of their rights against the Company and to assent to any modification of the provisions of the Trust Deed. In addition, the Trustee may from time to time without the consent or sanction of the CULS Holders (but only if and insofar as in the opinion of the Trustee the interests of the CULS Holders will not be materially prejudiced thereby), on such terms and subject to such conditions as it shall deem expedient, waive or authorise any breach or proposed breach by the Company of any of the covenants or provisions of the Trust Deed, determine that any act or omission which would or could constitute an event of default under the Trust Deed shall not do so, or agree to any modification of the provisions of the Trust Deed. The Trustee may also agree, without such consent or sanction as aforesaid, to any modification of the Trust Deed which is of a formal, technical or minor nature or to correct a manifest error or an error which is in the opinion of the Trustee proven. Provision will be made for convening separate meetings of the holders of the CULS and each series of any Further CULS when the Trustee considers this appropriate.
- 11.2. In connection with the exercise by it of any of its trusts, powers, authorities and discretions under the Trust Deed (including without limitation any modification, waiver, authorisation or determination as aforesaid), the Trustee shall have regard to the general interests of the CULS Holders as a class but shall not have regard to any interests arising from circumstances particular to individual CULS Holders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual CULS Holders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any CULS Holder be entitled to claim, from the Company, the Trustee or any other person, any indemnification or payment in respect of any tax consequences of any such exercise on individual CULS Holders.

## **12. Meetings of CULS Holders**

The Company and the Trustee may and the Trustee must, at the request in writing of registered holders of not less than one-tenth in nominal amount of the CULS, convene a meeting of the CULS Holders. At least 14 days' written notice or, when the meeting is being convened for the purpose of passing an Extraordinary Resolution, at least 21 days' written notice (exclusive in each case of the day on which the notice is served or deemed to be served and of the day for which the notice is given) of every meeting shall be given to the CULS Holders. The notice shall specify the place, day and hour of the meeting and the general nature of the business to be transacted at the meeting. A copy of such notice shall be sent by post to the Trustee, unless the meeting shall be convened by the Trustee, and to the Company, unless the meeting shall be convened by the Company. At any meeting one or more persons being CULS Holders present in person or by proxy or (in the case of a CULS Holder which is a corporation) by its duly authorised representative and holding or representing in aggregate one-twentieth in nominal amount of the CULS for the time being outstanding shall form a quorum for the transaction of business except for the purpose of passing an Extraordinary Resolution. The quorum for passing an Extraordinary Resolution shall be one or more persons being CULS Holders present in person or by proxy or (in the case of a CULS Holder which is a corporation) by its duly authorised representative and holding or representing in aggregate a clear majority in nominal amount of the

CULS for the time being outstanding. No business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum is present at the commencement of business.

If within 15 minutes (or such longer period not exceeding 30 minutes as the chairman may decide) from the time appointed for holding the meeting a quorum is not present the meeting, if convened upon the requisition of CULS Holders, shall be dissolved. In any other case, it shall stand adjourned to such day and time being not more than 42 days thereafter and to such place as may be appointed by the chairman and at such adjourned meeting one or more persons being CULS Holders present in person or by proxy or (in the case of a CULS Holder which is a corporation) by its duly authorised representative whatever the nominal amount of the CULS for the time being outstanding held or represented by them shall form a quorum for the transaction of business, including the passing of Extraordinary Resolutions. At least seven days' notice (exclusive as aforesaid) of any adjourned meeting of CULS Holders at which an Extraordinary Resolution is to be proposed shall be given in the same manner as for an original meeting and such notice shall state that one or more persons being CULS Holders present in person or by proxy or (in the case of a CULS Holder which is a corporation) by its duly authorised representative at the adjourned meeting whatever the nominal amount of the CULS for the time being outstanding held or represented by them will form a quorum.

### **13. Trustee's indemnification and consents**

The Trust Deed will contain provisions for the indemnification and/or pre-funding of and/or provision of security to the Trustee and for its relief from responsibility in certain events. The Trust Deed will provide that when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the CULS Holders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security. Any consent given by the Trustee may be given on such terms and subject to such conditions (if any) as the Trustee may in its absolute discretion think fit and, notwithstanding anything to the contrary in this Part 3, may be given retrospectively.

### **14. Removal, retirement and replacement of Trustee**

The Trust Deed will contain provisions for the removal of the Trustee by an Extraordinary Resolution and will permit the Trustee to retire at any time without assigning any reason.

The Company will have the power to appoint a new Trustee but such new Trustee shall be subject to the approval of an Extraordinary Resolution.

### **15. Auditors**

The Trust Deed will provide that the Trustee may rely on certificates or reports provided by the Auditors or other experts in accordance with the provisions of the Trust Deed whether or not any such certificate or report shall be addressed to the Trustee and whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and/or the Auditors or such other experts in connection therewith contains any limit (whether monetary or otherwise) on the liability of the Auditors or such other expert.

### **16. Governing law**

The Trust Deed, and any non-contractual obligations arising out of or in connection with it, will be governed by, and construed in accordance with, English law.

The Trust Deed will not contain any restriction on borrowings (including borrowings ranking ahead of the CULS), the disposal of assets or the creation of charges by, or changes in the nature of the business of, the Company or any subsidiary of the Company.

## PART 4

### THE ISSUE AND FURTHER CULS ISSUE

#### 1. Placing and Open Offer

The Company is proposing to issue up to £25,000,000 in nominal value of CULS through the Issue. The offer price for the CULS under the Placing and Open Offer is 100p per £1 nominal unit of CULS. £25 million CULS have been placed to new and existing investors pursuant to the Placing subject to clawback by Qualifying Shareholders under the Open Offer including the Excess Application Facility. The Company may, at the sole discretion of the Directors, issue up to a further £5 million in nominal value of CULS through the Further CULS Issue.

##### 1.1. *Record Date and applications under the Open Offer*

The Record Date for entitlements under the Open Offer for Qualifying CREST Shareholders and Qualifying non-CREST Shareholders is 6.00 p.m. on 28 February 2011. Application Forms for Qualifying non-CREST Shareholders accompany this document. The latest time and date for receipt of completed Application Forms and payment in full under the Open Offer and settlement of relevant CREST instructions (as appropriate) is expected to be 11.00 a.m. on 23 March 2011 with Admission and commencement of dealings in CULS expected to take place at 8.00 a.m. on 29 March 2011.

This document and, for Qualifying non-CREST Shareholders, the Application Form contain the formal terms and conditions of the Open Offer. Qualifying Shareholders' attention is drawn to paragraph 5 of this Part 4 which gives details of the procedure for application and payment for the CULS and for any Excess CULS applied for pursuant to the Excess Application Facility. The attention of Overseas Shareholders is drawn to paragraph 7 of this Part 4.

Any Qualifying Shareholder who has sold or transferred all or part of his/her/its registered holding(s) of Ordinary Shares in the capital of the Company prior to 8.00 a.m. on 3 March 2011 is advised to consult his or her or its stockbroker, bank or other agent through or to whom the sale or transfer was effected as soon as possible since the invitation to apply for CULS under the Open Offer may be a benefit which may be claimed from him/her/it by the purchasers under the rules of the London Stock Exchange.

##### 1.2. *Placing*

The Company has entered into the Placing Agreement pursuant to which Winterflood Securities has agreed to procure commitments for Firm Placed CULS under the Firm Placing and commitments for CULS placed subject to clawback to satisfy valid applications under the Excess Application Facility by Qualifying Shareholders under the Open Offer. Such placees are to comprise institutional and other investors (including certain existing Shareholders). Winterflood Securities is not underwriting the Placing and Open Offer.

The obligations of Winterflood Securities under the Placing Agreement are conditional, *inter alia*, on the passing of the Resolution at the General Meeting.

A summary of the principal terms of the Placing Agreement is contained in paragraph 8 of Part 6 of this document.

#### 2. Use of proceeds of the Issue

The Directors intend to apply the net proceeds of the Issue which based on the Minimum Net Proceeds being raised under the Issue, will be £20 million to repay the Company's existing Bank Facility, of which £14 million was drawn down as at 28 February 2011, and the remaining net proceeds will be able to be invested by the Manager in accordance with the Company's investment policy. The estimated net proceeds of the Issue, in the event that the CULS are subscribed for in full under the Placing and Open Offer, are estimated to be £24,470,000. In the event that the conditions set out in paragraph 3 below are not satisfied and the Issue does not proceed, the Company may refinance the Bank Facility when it becomes repayable on 13 October 2011. If the Directors decide not to refinance the existing Bank Facility, it will be repaid by the Company realising certain of its investments and as a result the Company may not have a geared exposure to the Main Market which may reduce the growth in the net asset value per Share.

Once the CULS are issued, on the assumption that the CULS are subscribed for in full under the Placing and Open Offer, the Company will not exceed the gearing limit of 25 per cent. of net assets at the time of drawdown as set out in its proposed new investment policy.

### **3. Conditions and further terms of the Placing and Open Offer**

The Placing and Open Offer are each conditional, *inter alia*, upon:

- 3.1. the passing of the Resolution without any amendment at the General Meeting convened for 28 March 2011;
- 3.2. the Minimum Net Proceeds being not less than £20 million (or such lower amount as the Company and Winterflood Securities may agree in writing);
- 3.3. the Placing Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms; and
- 3.4. Admission becoming effective by no later than 8.00 a.m. on 29 March 2011 (or such later date as the Company and Winterflood Securities may agree, not being later than 29 April 2011).

If these conditions are not satisfied, the Placing and Open Offer will not proceed. Any applications made by Qualifying Shareholders pursuant to the Open Offer will be rejected. In such circumstances, application monies will be returned (at the applicant's sole risk), without payment of interest, as soon as practicable thereafter.

No temporary documents of title will be issued in respect of CULS held in uncertificated form. Definitive certificates in respect of CULS taken up are expected to be posted to those Qualifying Shareholders who have validly elected to hold their CULS in certificated form on or around 4 April 2011. In respect of those Qualifying Shareholders who have validly elected to hold their CULS in uncertificated form, the CULS are expected to be credited to their stock accounts maintained in CREST on 29 March 2011.

Application has been made for all of the CULS to be listed on the Official List with a Standard Listing and to be admitted to trading on the Main Market. Admission is expected to occur on 29 March 2011, when dealings in the CULS are expected to begin.

All monies received by the Receiving Agent in respect of CULS prior to Admission will be held by the Receiving Agent in a non-interest bearing account.

If for any reason it becomes necessary to adjust the expected timetable, as set out on page 13 of this document, the Company will make an appropriate announcement to an RIS giving details of the revised dates.

In the event that the Minimum Net Proceeds are less than £20 million (or such lower amount as the Company and Winterflood Securities may agree in writing) the Issue shall be withdrawn and all monies received shall be returned, without interest, by the Receiving Agent.

### **4. The Open Offer**

The Open Offer gives Qualifying Shareholders the opportunity to apply for in aggregate:

**12,500,000 CULS at the Issue Price of £1 nominal,**

*pro rata* as nearly as practicable to their current holdings and in accordance with the terms of the Open Offer set out below.

Subject to the terms and conditions set out below (and where relevant, in the Application Form), Qualifying Shareholders are being given the opportunity to apply for such amount of CULS at the Issue Price (payable in full on application and free of all expenses) up to a maximum of their *pro rata* entitlement. This shall be calculated on the basis of:

**0.1962 CULS for each Ordinary Share**

in each case registered in the name of each Qualifying Shareholder at the close of business on the Record Date and so in proportion for any other number of Ordinary Shares then registered. Fractional

entitlements will be disregarded for the purposes of calculating Qualifying Shareholders' Open Offer Entitlement and entitlements will be rounded down to the nearest whole number of CULS as appropriate.

Applications by Qualifying Shareholders will be satisfied in full up to the amount of their individual Open Offer Entitlement. Qualifying Shareholders are also being given the opportunity, provided they take up their Open Offer Entitlement in full, to apply for Excess CULS through the Excess Application Facility. The maximum amount of CULS a Qualifying Shareholder will be able to apply for under the Open Offer and Excess Application Facility will be therefore 200 per cent. of their Open Offer Entitlement. To the extent that other Qualifying Shareholders do not take up their Open Offer Entitlements in full, the Excess Application Facility will apply.

**The Open Offer Entitlement of 0.1962 CULS for each Ordinary Share held are rounded to 4 significant figures for ease of presentation in this document but shall, when determining actual entitlements, be calculated to 8 significant figures, being 0.19616288.**

If applications under the Excess Application Facility are received for more than the total number of CULS available under the Open Offer following take up of Open Offer Entitlements, such applications will be scaled back *pro rata* to the number of Excess CULS applied for by Qualifying Shareholders under the Excess Application Facility. For the avoidance of doubt, the maximum amount in nominal value of CULS available under the Open Offer, including under the Excess Application Facility, is £12.5 million.

Please refer to paragraphs 5.1.4 and 5.2.10 of this Part 4 for further details of the Excess Application Facility.

The attention of Overseas Shareholders or any person (including, without limitation, a custodian, nominee or trustee) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the UK is drawn to paragraph 7 of this Part 4. Subject to the provisions of paragraph 7, Qualifying Shareholders with a registered address in the United States or any other of the Excluded Jurisdictions are not being sent this document and will not be sent an Application Form.

**Holdings of Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer, as will holdings under different designations and in different accounts.**

The Application Form shows the number of Ordinary Shares registered in Qualifying non-CREST Shareholders' names on the Record Date (in Box 1) and the maximum number of CULS, for which they are entitled to apply pursuant to their Open Offer Entitlement (in Box 2).

Qualifying CREST Shareholders will have Open Offer Entitlements credited to their stock accounts in CREST and should refer to paragraph 5.2 of this Part 4 and also to the CREST Manual for further information on the relevant CREST procedures.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. Qualifying non-CREST Shareholders should also note that the Application Form is not a negotiable document and cannot be traded. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear's Claims Processing Unit. CULS not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Qualifying Shareholders who do not apply to take up CULS will have no rights under the Open Offer. Any Open Offer Entitlements which are not applied for in respect of the Open Offer will be issued to Placees subject to the terms and conditions of the Placing Agreement with the proceeds retained for the benefit of the Company. Any CULS which are not taken up under the Open Offer will be allotted pursuant to the Excess Application Facility or the Placing.

The Ordinary Shares are already admitted to CREST and application will be made for admission to CREST of the CULS. Accordingly, all securities of the Company, when issued and fully paid, may be held and transferred by means of CREST.



Application has been made for the Open Offer Entitlements and Excess CREST Open Offer Entitlements to be admitted to CREST. The Open Offer Entitlements and Excess CREST Open Offer Entitlements are expected to be admitted to CREST with effect from 3 March 2011.

The CULS will be issued credited as fully paid and will rank ahead of the Ordinary Shares on a winding-up of the Company at the date of issue.

The CULS are not being made available in whole or in part to the public except under the terms of the Open Offer.

## 5. Procedure for application and payment

The action to be taken by Qualifying Shareholders in respect of the Open Offer depends on whether, at the relevant time, they have an Application Form in respect of their entitlement under the Open Offer, including the Excess Application Facility, or they have Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to their CREST stock account in respect of such entitlement.

Qualifying Shareholders who hold their Ordinary Shares in certificated form will be allotted CULS in certificated form. Qualifying Shareholders who hold part of their Ordinary Shares in uncertificated form will be allotted CULS in uncertificated form to the extent that their entitlement to CULS arises as a result of holding Ordinary Shares in uncertificated form. However, it will be possible for Qualifying Shareholders to deposit Open Offer Entitlements into, and withdraw them from, CREST. Further information on deposit and withdrawal from CREST is set out in paragraph 5.2.6 of this Part 4.

CREST sponsored members should refer to their CREST sponsor, as only their CREST sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements and Excess CREST Open Offer Entitlements of such members held in CREST. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements and Excess CREST Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

### 5.1. *If Qualifying Shareholders have an Application Form in respect of their entitlement under the Open Offer*

#### 5.1.1. *General*

Subject as provided in paragraph 7 of this Part 4 in relation to Overseas Shareholders, Qualifying non-CREST Shareholders will receive an Application Form. The Application Form shows the number of Ordinary Shares registered in their name on the Record Date in Box 1. It also shows the maximum number of CULS (set out in Box 2) for which they are entitled to apply under the Open Offer. Box 3 shows how much they would need to pay if they wish to take up their Open Offer Entitlement in full. Qualifying non-CREST Shareholders may apply for less than their maximum entitlement should they wish to do so. Qualifying non-CREST Shareholders may also hold such an Application Form by virtue of a *bona fide* market claim.

Under the Excess Application Facility, provided they have agreed to take up their Open Offer Entitlement in full, Qualifying non-CREST Shareholders may apply for more than the amount of their Open Offer Entitlement should they wish to do so. Please refer to paragraph 5.1.4 of this Part 4 for further details of the Excess Application Facility.

The instructions and other terms set out in the Application Form form part of the terms of the Open Offer to Qualifying non-CREST Shareholders.

#### 5.1.2. *Market claims*

Applications to acquire CULS may only be made on the Application Form and may only be made by the Qualifying non-CREST Shareholder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Ordinary Shares through the market prior to the date upon which the Ordinary Shares were marked "ex" the entitlement to participate in the Open Offer. Application Forms may not be assigned, transferred or split, except to satisfy *bona fide* market claims up to 3.00 p.m. on 21 March 2011. The Application Form is not a negotiable document and cannot be

separately traded. A Qualifying non-CREST Shareholder who has sold or otherwise transferred all or part of his holding of Ordinary Shares prior to the date upon which the Ordinary Shares were marked “ex” the entitlement to participate in the Open Offer, should consult his broker or other professional advisers as soon as possible, as the invitation to acquire CULS under the Open Offer may be a benefit which may be claimed by the transferee. Qualifying non-CREST Shareholders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box 10 on page 4 of the Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Application Form should not, however be forwarded to or transmitted in or into the United States or any of the Excluded Jurisdictions. If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the accompanying Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedures set out in paragraph 5.2 below.

#### 5.1.3. *Application procedures for Qualifying non-CREST Shareholders*

Qualifying non-CREST Shareholders wishing to apply to acquire all or any of the CULS (whether in respect of all or part of their Open Offer Entitlement or in addition to their Open Offer Entitlement under the Excess Application Facility) should complete the Application Form in accordance with the instructions printed on it.

Completed Application Forms should be returned to Computershare Investor Services PLC, Corporate Actions Projects, Bristol BS99 6AH or delivered by hand to The Pavilions, Bridgwater Road, Bristol BS13 8AE so as to be received by Computershare by no later than 11.00 a.m. on 23 March 2011, after which time the Application Forms will not be valid. Within the United Kingdom, Qualifying non-CREST Shareholders can use the pre-paid envelope accompanying the Application Form. If Application Forms are posted by first-class post in the UK or using the reply-paid envelope included with the Application Form, at least four business days should be allowed for delivery. Application Forms delivered by hand will not be checked upon delivery and no receipt will be provided. Qualifying non-CREST Shareholders should note that applications, once made, will be irrevocable and receipt thereof will not be acknowledged.

Cheques should be drawn on a personal account in respect of which the Qualifying non-CREST Shareholder has sole or joint title to the funds and should be made payable to Computershare Investor Services PLC re: Standard Life UK Smaller Companies Trust plc open offer a/c” and crossed “A/C Payee Only”. Payments must be made in sterling and the account name on the cheque must be the same as that shown on the Application Form. If this is not practicable and a Qualifying non-CREST Shareholder wishes to pay by building society cheque or banker’s draft, they must:

- (i) write the name, address and date of birth of the person named on the Application Form (or one of such persons) on the back of the building society cheque or banker’s draft; and
- (ii) ask the building society or bank (as the case may be) to endorse the name and account number of the person whose building society or bank account is being debited on the cheque or banker’s draft.

Third party cheques (other than building society cheques or banker’s drafts where the building society or bank has confirmed that the relevant Qualifying non-CREST Shareholder has title to the underlying funds) may not be accepted. Payments via CHAPS, BACS or electronic transfer will not be accepted.

Cheques and banker’s draft will be presented for payment on receipt and it is a term of the Open Offer that cheques and banker’s drafts will be honoured on first presentation. The Company may elect to treat as valid or invalid any applications made by Qualifying non-CREST Shareholders in respect of which cheques or banker’s drafts are not so honoured. If cheques or banker’s drafts are presented for payment before all of the

conditions of the Placing and Open Offer are fulfilled, the application monies will be kept in a separate non-interest bearing bank account. If the Placing and Open Offer does not become unconditional no CULS will be issued and all monies will be returned (at the applicant's sole risk), without payment of interest, to applicants as soon as practicable following the lapse of the Placing and Open Offer.

The Company may in its sole discretion, but shall not be obliged to, treat an Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and conditions of the Open Offer. The Company further reserves the right (but shall not be obliged) to accept any application for CULS if either:

- (i) the Application Form together with cheques or other remittances for the full amount payable are received through the post after 11.00 a.m. on 23 March 2011 but not later than 11.00 a.m. on the next following business day (the cover bearing a legible postmark not later than 5:00 p.m. on the business day prior to 23 March 2011); or
- (ii) the required remittance is received prior to 11.00 a.m. on 23 March 2011 from an authorised person (as defined in FSMA) specifying the number of CULS concerned and undertaking to lodge the relevant Application Form as soon as practicable and in any event within two business days following 23 March 2011.

All documents and remittances sent by post by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk.

#### 5.1.4. *The Excess Application Facility*

Provided Qualifying non-CREST Shareholders choose to take up their Open Offer Entitlement in full, the Excess Application Facility enables Qualifying non-CREST Shareholders to apply for Excess CULS up to a maximum amount equal to 100 per cent. of their Open Offer Entitlement. For the avoidance of doubt, the maximum amount in nominal value of CULS available under the Open Offer (including the Excess Application Facility) is £12.5 million.

To the extent that other Qualifying Shareholders do not take up their Open Offer Entitlements in full the Excess Application Facility will apply. The total number of CULS available under the Open Offer will not be increased in response to any excess applications under the Excess Application Facility. If applications under the Excess Application Facility are received for more than the total number of CULS available following take up of Open Offer Entitlements, such applications will be scaled back *pro rata* to the number of Excess CULS applied for by Qualifying Shareholders under the Excess Application Facility.

Qualifying non-CREST Shareholders who wish to apply for CULS in excess of their Open Offer Entitlement must complete the Application Form in accordance with the instructions set out on the Application Form.

Should the Open Offer become unconditional and applications for CULS exceed 12,500,000 units of CULS, resulting in a scale back of applications under the Open Offer, each Qualifying non-CREST Shareholder who has made a valid application for Excess CULS under the Excess Application Facility, and from whom payment in full for Excess CULS has been received, will receive a pounds sterling amount equal to the number of CULS applied and paid for, but not allocated to, the relevant Qualifying non-CREST Shareholder, multiplied by the Issue Price. Monies will be returned as soon as reasonably practicable thereafter, without payment of interest and at the applicant's sole risk, save that any sums of less than £5 will be retained for the benefit of the Company.

#### 5.1.5. *Incorrect sums*

If an Application Form encloses a payment for an incorrect sum, the Company through the Receiving Agent reserves the right:

- (i) to reject the application in full and return the cheque or banker's draft or refund the payment to the Qualifying non-CREST Shareholder in question; or
- (ii) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of CULS as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the Qualifying non-CREST Shareholder in question, save that any sums of less than £5 will be retained for the benefit of the Company; or
- (iii) in the case that an excess sum is paid, to treat the application as a valid application for all of the CULS referred to in the Application Form, refunding any unutilised sums to the Qualifying non-CREST Shareholder in question, save that any sums of less than £5 will be retained for the benefit of the Company.

#### 5.1.6. *Effect of application*

By completing and delivering an Application Form the applicant:

- (i) represents and warrants to the Company and Winterflood Securities that he has the right, power and authority and has taken all action necessary to make the application under the Open Offer and to execute, deliver and exercise his rights and perform his obligations under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for such CULS as he is or is otherwise treated as applying for or acting on behalf of any such person on a non-discretionary basis;
- (ii) agrees with the Company and Winterflood Securities that all applications under the Open Offer and any contracts or non-contractual obligations resulting therefrom shall be governed by, and construed in accordance with, the laws of England and Wales;
- (iii) confirms to the Company and Winterflood Securities that in making the application he is not relying on any information or representation relating to the Company other than that contained in (or incorporated by reference in) this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all information in relation to the Company contained in this document (including information incorporated by reference);
- (iv) confirms to the Company and Winterflood Securities that no person has been authorised to give any information or to make any representation concerning the Company or the CULS (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or Winterflood Securities;
- (v) represents and warrants to the Company and Winterflood Securities that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements or that he received such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (vi) represents and warrants to the Company and Winterflood Securities that if he has received some or all of his Open Offer Entitlements from a person other than the Company he is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a *bona fide* market claim;

- (vii) requests that the CULS to which he will become entitled be issued to him on the terms set out in this document and the Application Form, subject to the Articles and Memorandum of Association of the Company;
- (viii) represents and warrants to the Company and Winterflood Securities that he is not, nor is he applying on behalf of any person who is, a citizen or resident, or which is a corporation, partnership or other entity created or organised in or under any laws of any jurisdiction in which the application for CULS is prevented by law and he is not applying with a view to re-offering, re-selling, transferring or delivering any of the CULS which are the subject of his application to, or for the benefit of, a person who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of any jurisdiction in which the application for CULS is prevented by law (except where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the Company free of any requirement which it (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for CULS under the Open Offer;
- (ix) represents and warrants to the Company and Winterflood Securities that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986; and
- (x) confirms that in making the application, he is not relying and has not relied on Winterflood Securities or any person affiliated with Winterflood Securities in connection with any investigation of the accuracy of any information contained in this document or his investment decision.

All enquiries in connection with the procedure for application and completion of the Application Form should be addressed to the Receiving Agent, Computershare Investor Services PLC on telephone number 0870 889 4076, or if calling from overseas +44 870 889 4076. Calls to the helpline are charged at approximately 8 pence per minute from a BT landline, other telephone provider costs may vary. Please note the Receiving Agent cannot provide financial advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements or apply for Excess CULS under the Excess Application Facility.

**Qualifying Shareholders who do not want to apply for the CULS under the Open Offer should take no action and should not complete or return the Application Form. However, such Qualifying Shareholders are requested to complete and return the Form of Proxy to the Company's registrars Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY.**

**5.2. *If Qualifying CREST Shareholders have Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to their stock account in CREST in respect of their entitlement under the Open Offer***

**5.2.1. *General***

Subject as provided in paragraph 7 of this Part 4 in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder will receive credits to his stock account in CREST of his Open Offer Entitlements equal to the maximum number of CULS for which he is entitled to apply under the Open Offer and also an Excess CREST Open Offer Entitlement equal to the maximum number of Excess CULS for which he applied. Please refer to paragraph 5.2.10 of this Part 4 for further details of the Excess Application Facility.

The CREST stock account to be credited will be an account under the Participant ID and Member Account ID that apply to the Ordinary Shares held on the Record Date by the Qualifying CREST Shareholder in respect of which the Open Offer Entitlements and Excess CREST Open Offer Entitlements have been allocated.

If for any reason the Open Offer Entitlements and/or Excess CREST Open Offer Entitlements cannot be admitted to CREST, or the stock accounts of Qualifying CREST Shareholders cannot be credited by 5.00 p.m. on 3 March 2011, or such later time and/or date as the Company may decide, an Application Form will be sent to each Qualifying CREST Shareholder in substitution for the Open Offer Entitlements and Excess CREST Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applied to Qualifying non-CREST Shareholders with Application Forms.

Qualifying CREST Shareholders who wish to apply to acquire some or all of their entitlements to CULS and their Excess CREST Open Offer Entitlements should refer to the CREST Manual for further information on the CREST procedures referred to below. If advice is required with regard to these procedures, please contact the Receiving Agent, Computershare Investor Services PLC, on telephone number 0870 889 4076, or if calling from overseas +44 870 889 4076. Calls to the helpline are charged at approximately 8 pence per minute from a BT landline, other telephone provider costs may vary. Please note the Receiving Agent cannot provide financial advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements and Excess CREST Open Offer Entitlements. CREST sponsored members should consult their CREST sponsor if they wish to apply for CULS as only CREST sponsors will be able to take the necessary action to make this application in CREST.

#### 5.2.2. *Market claims*

The Open Offer Entitlements and the Excess CREST Open Offer Entitlements in respect of the CULS will constitute separate securities for the purposes of CREST. Although Open Offer Entitlements and the Excess CREST Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements and the Excess CREST Open Offer Entitlements may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim transaction. Transactions identified by the CREST Claims Processing Unit as “cum” the Open Offer Entitlement and the Excess CREST Open Offer Entitlements will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) will thereafter be transferred accordingly.

#### 5.2.3. *USE instructions*

Qualifying CREST Shareholders who want to apply for CULS in respect of all or some of their Open Offer Entitlements and their Excess CREST Open Offer Entitlements in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an Unmatched Stock Event (“USE”) instruction to Computershare which, on its settlement, will have the following effect:

- (i) the crediting of a stock account of the Receiving Agent under the Participant ID and Member Account ID specified below, with a number of Open Offer Entitlements or Excess CREST Open Offer Entitlements corresponding to the number of CULS applied for; and
- (ii) the creation of a CREST payment, in accordance with the CREST payment arrangements in favour of the payment bank of the Receiving Agent in respect of the amount specified in the USE Instruction which must be the full amount payable on application for the number of CULS referred to in (i) above.

#### 5.2.4. *Content of USE instruction in respect of Open Offer Entitlements*

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of CULS for which application is being made (and hence the number of the Open Offer Entitlements) being delivered to the Receiving Agent;
- (ii) the relevant ISIN of the Open Offer Entitlements. This is GB00B43K7147 for Open Offer Entitlements in respect of CULS;
- (iii) the Participant ID of the accepting Qualifying CREST Shareholder;
- (iv) the Member Account ID of the accepting Qualifying CREST Shareholder from which the Open Offer Entitlements are to be debited;
- (v) the Participant ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 3RA13;
- (vi) the Member Account ID of the Receiving Agent in its capacity as a CREST receiving agent. This is STANDARD;
- (vii) the amount payable by means of a CREST payment on settlement of the USE Instruction. This must be the full amount payable on application for the number of CULS referred to in (i) above;
- (viii) the intended settlement date. This must be on or before 11.00 a.m. on 23 March 2011; and
- (ix) the corporate action number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 23 March 2011.

#### 5.2.5. *Contents of USE Instruction in respect of Excess CREST Open Offer Entitlements*

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of CULS for which application is being made (and hence the number of the Excess CREST Open Offer Entitlement(s) being delivered to the Receiving Agent);
- (ii) the ISIN of the Excess CREST Open Offer Entitlement. This is GB00B44VR832 for Excess CREST Open Offer Entitlements;
- (iii) the Participant ID of the accepting Qualifying CREST member;
- (iv) the Member Account ID of the accepting CREST member from which the Excess CREST Open Offer Entitlements are to be debited;
- (v) the Participant ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 3RA13;
- (vi) the Member Account ID of the Receiving Agent in its capacity as a CREST receiving agent. This is STANDARD;
- (vii) the amount payable by means of a CREST payment on settlement of the USE Instruction. This must be the full amount payable on application for the number of CULS referred to in (i) above;

- (viii) the intended settlement date. This must be on or before 11.00 a.m. on 23 March 2011; and
- (ix) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application in respect of an Excess CREST Open Offer Entitlement under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 23 March 2011.

In order to assist prompt settlement of the USE instruction, Qualifying CREST Shareholders (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction:

- (i) a contact name and telephone number (in the free format shared note field); and
- (ii) a priority of at least 80.

Qualifying CREST Shareholders and, in the case of CREST sponsored members, their CREST sponsors; should note that the last time at which a USE instruction may settle on 23 March 2011 in order to be valid is 11.00 a.m. on that day.

In the event that the Placing and Open Offer do not become unconditional by 8.00 a.m. on 29 March 2011 or such later time and date as the Company and Winterflood Securities determine (being no later than 8.00 a.m. on 29 April 2011), the Placing and Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter.

#### 5.2.6. *Deposit of Open Offer Entitlements into, and withdrawal from, CREST*

A Qualifying non-CREST Shareholder's entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Application Form may be deposited into CREST (either into the account of the Qualifying Shareholder named in the Application Form or into the name of a person entitled by virtue of a *bona fide* market claim). Similarly, Open Offer Entitlements and Excess CREST Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlement under the Open Offer and entitlement to apply under the Excess Application Facility is reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) as set out in the Application Form.

A holder of an Application Form who is proposing to deposit the entitlement set out in such form into CREST is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements and entitlement to apply under the Excess Application Facility following their deposit into CREST to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 23 March 2011. After depositing their Open Offer Entitlement into their CREST account, CREST holders will shortly thereafter receive a credit for their Excess CREST Open Offer Entitlement, which will be managed by the Registrar. In particular, having regard to normal processing times in CREST and on the part of the Receiving Agent, the recommended latest time for depositing an Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Application Form as an Open Offer Entitlement and an Excess CREST Open Offer Entitlement in CREST, is 3.00 p.m. on 18 March 2011 and the recommended latest time for receipt by Euroclear of a dematerialised instruction requesting withdrawal of an Open Offer Entitlement or an Excess CREST Open Offer Entitlement from CREST is 4.30 p.m. on 17 March 2011 in either case so as to enable the person acquiring or (as appropriate) holding the Open



Offer Entitlement and entitlement to apply under the Excess Application Facility following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlement and entitlement to apply under the Excess Application Facility and an Excess CREST Open Offer Entitlement prior to 11.00 a.m. on 23 March 2011. CREST holders inputting the withdrawal of their Open Offer Entitlement from their CREST account must ensure that they withdraw both their Open Offer Entitlement and their Excess CREST Open Offer Entitlement.

Delivery of an Application Form with the CREST deposit form duly completed whether in respect of a deposit into the account of the Qualifying Shareholder named in the Application Form or into the name of another person, shall constitute a representation and warranty to the Company and the Receiving Agent by the relevant CREST member(s) that it/they is/are not in breach of the provisions of the notes on page 3 of the Application Form, and a declaration to the Company and the Receiving Agent from the relevant CREST member(s) that it/they is/are not citizen(s) or residents of any jurisdiction in which the application for CULS is prevented by law and, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST members is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

5.2.7. *Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 23 March 2011 will constitute a valid application under the Open Offer.

5.2.8. *CREST procedures and timings*

CREST members and (where applicable) their CREST sponsors should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 23 March 2011. In this connection CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

5.2.9. *Incorrect or incomplete applications*

If a USE instruction includes a CREST payment for an incorrect sum, the Company, through the Receiving Agent, reserves the right:

- (i) to reject the application in full and refund the payment to the CREST member in question without any interest (with interest, if any, retained for the benefit of the Company);
- (ii) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of CULS as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the CREST member in question, save that sums of less than £5 will be retained for the benefit of the Company; and
- (iii) in the case that an excess sum is paid, to treat the application as a valid application for all the CULS referred to in the USE instruction, refunding any unutilised sum to the CREST member in question without any interest, save that sums of less than £5 will be retained for the benefit of the Company.

#### 5.2.10. *The Excess Application Facility*

Provided Qualifying CREST Shareholders choose to take up their Open Offer Entitlement in full, the Excess Application Facility enables Qualifying CREST Shareholders to apply for Excess CULS up to a maximum amount equal to 100 per cent. of their Open Offer Entitlement. For the avoidance of doubt, the maximum amount in nominal value of CULS available under the Open Offer (including the Excess Application Facility) is £12.5 million.

To the extent that other Qualifying Shareholders do not take up their Open Offer Entitlements in full the Excess Application Facility will apply. The total number of CULS available under the Open Offer will not be increased in response to any excess applications under the Excess Application Facility. If applications under the Excess Application Facility are received for more than the total number of CULS available following take up of Open Offer Entitlements such applications will be scaled back *pro rata* to the number of Excess CULS applied for by Qualifying Shareholders under the Excess Application Facility.

An Excess CREST Open Offer Entitlement may not be sold or otherwise transferred. Subject as provided in paragraph 7 of this Part 4 in relation to certain Overseas Shareholders, the CREST accounts of Qualifying CREST Shareholders will be credited with an Excess CREST Open Offer Entitlement in order for any applications for Excess CULS to be settled through CREST. The credit of such Excess CREST Open Offer Entitlement does not in any way give Qualifying CREST Shareholders a right to the CULS attributable to the Excess CREST Open Offer Entitlement as an Excess CREST Open Offer Entitlement is subject to scaling back in accordance with the terms of this document.

To apply for Excess CULS pursuant to the Open Offer, Qualifying CREST Shareholders should follow the instructions above and must not return a paper form and cheque.

Should a transaction be identified by the CREST Claims Processing Unit as “cum” the Open Offer Entitlement and the relevant Open Offer Entitlement(s) be transferred, the Excess CREST Open Offer Entitlements will not transfer with the Open Offer Entitlement(s) claim, but will be transferred as a separate claim. Should a Qualifying CREST Shareholder cease to hold all of his Shares as a result of one or more *bona fide* market claims, the Excess CREST Open Offer Entitlement credited to CREST, and allocated to the relevant Qualifying Shareholder, will be transferred to the purchaser. Please note that an additional USE Instruction must be sent in respect of any application under the Excess CREST Open Offer Entitlement.

Should the Open Offer become unconditional and applications for CULS by Qualifying Shareholders under the Open Offer exceed £12,500,000 CULS, in nominal value, resulting in a scale back of applications under the Excess Application Facility, each Qualifying CREST Shareholder who has made a valid application for Excess CULS under the Excess Application Facility, and from whom payment in full for the Excess CULS has been received, will receive a pounds sterling amount equal to the number of CULS validly applied and paid for but which are not allocated to the relevant Qualifying CREST Shareholder multiplied by the Issue Price. Monies will be returned as soon as reasonably practicable thereafter, without payment of interest, and at the applicant's sole risk, save that any sums of less than £5 will be retained for the benefit of the Company.

Fractions of CULS will not be issued under the Excess Application Facility and fractions of CULS will be rounded down to the nearest whole number.

#### 5.2.11. *Effect of valid application*

A Qualifying CREST Shareholder who makes or is treated as making a valid application in accordance with the above procedures thereby:

- (i) represents and warrants to the Company and Winterflood Securities that he has the right, power and authority, and has taken all action necessary, to make the

application under the Open Offer and to execute, deliver and exercise his rights and perform his obligations under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for such CULS as he is or is otherwise treated as applying for or acting on behalf of any such person on a non-discretionary basis;

- (ii) agrees to pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to the Receiving Agent payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to the Company the amount payable on application);
- (iii) agrees with Winterflood Securities that all applications under the Open Offer and any contracts or non-contractual obligations resulting therefrom shall be governed by, and construed in accordance with, the laws of England and Wales;
- (iv) confirms to the Company and Winterflood Securities that in making the application he is not relying on any information or representation in relation to the Company other than that contained in (or incorporated by reference in) this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further have had notice of all the information in relation to the Company contained in this document (including information incorporated by reference);
- (v) confirms to the Company and Winterflood Securities that no person has been authorised to give any information or to make any representation concerning the Company or the CULS (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or Winterflood Securities;
- (vi) represents and warrants to the Company and Winterflood Securities that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements and Excess CREST Open Offer Entitlements or that he has received such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (vii) represents and warrants to the Company and Winterflood Securities that if he has received some or all of his Open Offer Entitlements and Excess CREST Open Offer Entitlements from a person other than the Company, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlement by virtue of a *bona fide* market claim;
- (viii) requests that the CULS to which he will become entitled be issued to him on the terms set out in this document, subject to the memorandum of association of the Company and Articles;
- (ix) represents and warrants to the Company and Winterflood Securities that he is not, nor is he applying on behalf of a person who is, a citizen or resident, or which is a corporation, partnership or other entity created or organised in or under any laws of any jurisdiction in which the application for CULS is prevented by law and he is not applying with a view to re-offering, re-selling, transferring or delivering any of the CULS which are the subject of his application to, or for the benefit of, a person who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws, of any jurisdiction in which the application for CULS is prevented by law (except where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the

Company free of any requirement which it (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for CULS under the Open Offer;

- (x) represents and warrants to the Company and Winterflood Securities that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986; and
- (xi) confirms to the Company and Winterflood Securities that in making the application he is not relying and has not relied on Winterflood Securities or any person affiliated with Winterflood Securities in connection with any investigation of the accuracy of any information contained in this document or his investment decision.

#### 5.2.12. *Company's discretion as to the rejection and validity of applications*

Each of the Company and Winterflood Securities may in its sole discretion:

- (i) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part 4;
- (ii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
- (iii) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid application if, at the time at which the Receiving Agent receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (iv) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for CULS by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

#### 5.2.13. *Lapse of the Open Offer*

In the event that the Placing and Open Offer do not become unconditional by 8.00 a.m. on 29 March 2011 or such later time and date as the Company and Winterflood Securities may agree (not being later than 8.00 a.m. on 29 April 2011), the Placing and Open Offer will lapse, the Open Offer Entitlements and Excess CREST Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter.

## **6. Money laundering regulations**

### **6.1. Holders of Application Forms**

To ensure compliance with the Money Laundering Regulations, the Receiving Agent may require, at its absolute discretion, verification of the identity of the person by whom or on whose behalf the Application Form is lodged with payment (which requirements are referred to below as the “verification of identity requirements”). If the Application Form is submitted by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not of the Receiving Agent. In such case, the lodging agent’s stamp should be inserted on the Application Form.

The person lodging the Application Form with payment and in accordance with the other terms as described above (the “acceptor”), including any person who appears to the Receiving Agent to be acting on behalf of some other person, accepts the Open Offer in respect of such number of CULS referred to therein (for the purposes of this paragraph 6.1 the “relevant CULS”) and shall thereby be deemed to agree to provide the Receiving Agent with such information and other evidence as the Receiving Agent may require to satisfy the verification of identity requirements.

If the Receiving Agent determines that the verification of identity requirements apply to any acceptor or application, the relevant CULS (notwithstanding any other term of the Open Offer) will not be issued to the relevant acceptor unless and until the verification of identity requirements have been satisfied in respect of that acceptor or application. The Receiving Agent is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any acceptor or application and whether such requirements have been satisfied, and neither the Receiving Agent nor the Company will be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of such discretion.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in delays in the despatch of certificates in respect of CULS taken up or in crediting CREST accounts. If, within a reasonable time following a request for verification of identity, the Receiving Agent has not received evidence satisfactory to it as aforesaid, the Company may, in its absolute discretion, treat the relevant application as invalid, in which event the monies payable on acceptance of the Open Offer will be returned (at the acceptor’s risk) without interest to the account of the bank or building society on which the relevant cheque or banker’s draft was drawn. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

Submission of an Application Form with the appropriate remittance will constitute a warranty to each of the Company and Winterflood Securities from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.

The verification of identity requirements will not usually apply:

- 6.1.1. if the applicant is an organisation required to comply with the Money Laundering Directive (2005/60/EC of the European Parliament and of the EC Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing); or
- 6.1.2. if the acceptor is a regulated United Kingdom broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- 6.1.3. if the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the applicant’s name; or
- 6.1.4. if the aggregate subscription price for the CULS is less than €15,000 (or its pounds sterling equivalent).

In other cases the verification of identity requirements may apply. Satisfaction of these requirements may be facilitated in the following ways:

- (i) if payment is made by cheque or banker’s draft in sterling drawn on a branch in the United Kingdom of a bank or building society which bears a UK bank sort code number in the top right hand corner the following applies. Cheques, should be made payable to ‘Computershare

Investor Services PLC re: Standard Life UK Smaller Companies Trust plc open offer a/c” in respect of an application by a Qualifying Shareholder, and crossed “A/C Payee Only”. Third party cheques may not be accepted with the exception of building society cheques or banker’s drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque/banker’s draft to such effect. The account name should be the same as that shown on the Application Form; or

- (ii) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (i) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, China, Gibraltar, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, Russian Federation, Singapore, South Africa, Switzerland, Turkey, UK Crown Dependencies and the US and, by virtue of their membership of the Gulf Cooperation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide with the Application Form written confirmation that it has obtained and recorded evidence of the identity of the person for whom it acts and that it will on demand make such evidence available to the Receiving Agent. If the agent is not such an organisation, it should contact the Receiving Agent at the address set out on page 20 of this document.

To confirm the acceptability of any written assurance referred to in (ii) above, or in any other case, the acceptor should contact the Receiving Agent. The telephone number of the Receiving Agent is 0870 889 4076 from within the UK or +44 870 889 4076 if calling from outside the UK between 9.00 a.m. and 5.00 p.m. (London time) Monday to Friday (except UK public holidays). Calls to the helpline cost approximately 8 pence per minute from a BT landline, other telephone provider costs may vary. The helpline cannot provide advice on the merits of the Open Offer nor give any financial, legal or tax advice.

If the Application Form has in respect of CULS an aggregate subscription price of €15,000 (or its pounds sterling equivalent) or more and is lodged by hand by the acceptor in person, or if the Application Form is lodged by hand by the acceptor and the accompanying payment is not the acceptor’s own cheque, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and separate evidence of his address.

If, within a reasonable period of time following a request for verification of identity, and in any case by no later than 11.00 a.m. on 23 March 2011, the Receiving Agent has not received evidence satisfactory to it as aforesaid, the Receiving Agent may, at its discretion, as agent of the Company, reject the relevant application, in which event the monies submitted in respect of that application will be returned without interest to the account at the drawee bank from which such monies were originally debited (without prejudice to the rights of the Company to undertake proceedings to recover monies in respect of any loss suffered by it as a result of the failure to produce satisfactory evidence as aforesaid).

## **6.2. *Open Offer Entitlements in CREST***

If Qualifying Shareholders hold their Open Offer Entitlements and Excess CREST Open Offer Entitlements in CREST and apply for CULS in respect of all or some of their Open Offer Entitlements and Excess CREST Open Offer Entitlements as agent for one or more persons and are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Receiving Agent is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is made. The Receiving Agent should be contacted before any USE instruction or other instruction is sent so that appropriate measures may be taken.

Submission of a USE instruction which on its settlement constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Receiving Agent such information as may be specified by the Receiving Agent as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to the Receiving Agent as to identity, the Receiving Agent may in its absolute discretion take, or omit to take, such action as it may determine to prevent or delay issue of the CULS concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the CULS represented by the USE instruction will not be valid. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

## 7. Overseas Shareholders

This document has been approved by the FSA, being the competent authority in the United Kingdom.

The making of the Open Offer to persons who are resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the United Kingdom or to persons who are nominees of or custodian trustees or guardians for citizens, residents in or nationals of, countries other than the United Kingdom may be restricted by the laws or regulatory requirements of the relevant jurisdictions. Such Overseas Shareholders should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirement to enable them to take up the CULS under the Open Offer.

Receipt of this document and/or the Application Form and/or a credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST will not constitute an invitation to subscribe for CULS in those jurisdictions in which it would be illegal to make such an invitation or any related offer and/or acceptance and, in those circumstances, this document and/or the Application Form will be sent for information only and should not be copied or redistributed. No person receiving a copy of this document and/or the Application Form and/or a credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, or use the Application Form and/or a credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him and such Application Form and/or a credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST could lawfully be used, and any transaction resulting from such use could be effected, without contravention of any registration or other legal or regulatory requirements.

Accordingly, persons receiving a copy of this document and/or the Application Form or a credit of Open Offer Entitlements to a stock account in CREST, in connection with the Open Offer or otherwise, should not distribute or send either of those documents nor transfer Open Offer Entitlements or Excess CREST Open Offer Entitlements in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a copy of this document and/or the Application Form and/or a credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST is received by any person in any such territory, or by their agent or nominee in any such territory, that person must not seek to apply for CULS. Any person who does forward this document and/or the Application Form and/or transfers Open Offer Entitlements or Excess CREST Open Offer Entitlements into any such territories (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph.

Any person (including, without limitation, custodians, nominees and trustees) outside the United Kingdom wishing to apply for CULS must satisfy himself/herself as to full observance of the applicable laws of any relevant territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. The comments set out in this paragraph are intended as a general guide only and any Shareholder who is in any doubt as to his position should consult his appropriately authorised professional adviser without delay.

The Company reserves the right to treat as invalid any application or purported application for CULS which appears to the Company or its agents to have been executed, effected or dispatched in a manner which may involve a breach of the laws or regulations of any jurisdiction or if the Company believes or its agents believe that the same may violate applicable legal or regulatory requirements or if it provides an address for delivery of certificates for CULS, or in the case of a credit of an Open Offer Entitlement or an Excess CREST Open Offer Entitlement to a stock account in CREST, to a CREST member whose registered address would be, in any other jurisdiction outside the United Kingdom in which it would be unlawful to deliver such certificates or CULS.

Shareholders in jurisdictions outside the United Kingdom may, subject to the laws of their relevant jurisdiction, take up CULS in accordance with the instructions set out in this document and the Application Form. Such Qualifying Shareholders who have registered addresses in, or who are resident in, or who are citizens of, countries other than the United Kingdom should, however, consult their appropriate professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their CULS.

Notwithstanding any other provision of this document or the Application Form, the Company reserves the right to permit any Shareholder to apply for CULS if the Company, in its sole and absolute discretion, is satisfied at any time prior to 11.00 a.m. on 23 March 2011 that the transaction in question is exempt from, or not subject to, the legislation or regulations giving rise to the restrictions in question.

If Qualifying Shareholders are in any doubt as to their eligibility to take up CULS, they should contact an appropriate professional adviser immediately.

#### **7.1. *United States***

The Open Offer Entitlements, the CULS, the Application Form and the CULS have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into the United States except in reliance on an exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Accordingly, the Company is not extending the Open Offer into the United States unless an exemption from the registration requirements of the Securities Act is available and, subject to certain exceptions, none of this document, the Application Form nor the crediting of Open Offer Entitlements nor Excess CREST Open Offer Entitlements to a stock account in CREST will constitute an offer or an invitation to apply for or an offer or an invitation to acquire any CULS in the United States. Subject to certain exceptions, neither this document nor the Application Form will be sent to, and no Open Offer Entitlements nor Excess CREST Open Offer Entitlements will be credited to, a stock account in CREST with a bank or financial institution of any person with a registered address in the United States. Subject to certain exceptions, an Application Form sent from, or post-marked in, the United States will be deemed to be invalid and all persons acquiring CULS and wishing to hold such CULS in registered form must provide an address for registration of the CULS issued outside the United States.

Subject to certain exceptions, any person who acquires CULS will be deemed to have declared, warranted and agreed, by accepting delivery of this document or the Application Form or by applying for CULS in respect of Open Offer Entitlements or Excess CREST Open Offer Entitlements credited to a stock account in CREST or of Euroclear, or by accepting delivery of the CULS, that they are not, and that at the time of acquiring the CULS, they will not be, in the United States or applying for CULS on behalf of, or for the account or benefit of, persons in the United States on a non-discretionary basis.

The Company reserves the right to treat as invalid any Application Form that appears to the Company or its agents to have been executed in or despatched from the United States, or that provides an address in the United States for the registration of the CULS, or where the Company believes acceptance of such Application Form may infringe applicable legal or regulatory requirements. The Company will not be bound to issue any CULS to any person or to any person who is acting on behalf of, or for the account or benefit of, any person on a non-discretionary basis with an address in, or who is otherwise located in, the United States. In addition, the Company reserves the right to reject any USE instruction sent by or on behalf of any CREST member that does not make the above warranty or is applying for the CULS on behalf of, or for the account or benefit of, a person in the United States.

Notwithstanding the foregoing, CULS may be made available under the Placing and Open Offer to Qualifying Shareholders that are, or who are acting on behalf of, or for the account or benefit of, qualified institutional buyers in reliance on an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Such Shareholders will be required to execute an investor representation letter confirming, among other things, their status as a "qualified institutional buyer" (as such term is defined under Rule 144A under the Securities Act), and their ability to rely on an exemption from the registration requirements of the Securities Act in connection with their participation in the Placing and Open Offer. CULS may also be made available, in the sole discretion of the Company, to other Qualifying Shareholders who may be offered the CULS pursuant to an available exemption from the registration requirements of the Securities Act.

#### **7.2. *Other Excluded Jurisdictions***

Due to restrictions under the securities laws of the Excluded Jurisdictions and subject to certain exemptions, Shareholders who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, any of the Excluded Jurisdictions will not be able to participate in the Open Offer and



will not be sent an Application Form nor will their stock accounts in CREST be credited with Open Offer Entitlements nor Excess CREST Open Offer Entitlements.

The CULS have not been and will not be registered under the relevant laws of any of the Excluded Jurisdictions or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly, in or into any of the Excluded Jurisdictions or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any of the Excluded Jurisdictions except pursuant to an applicable exemption.

No offer of CULS is being made by virtue of this document or the Application Forms into any of the Excluded Jurisdictions.

### **7.3. *Other overseas territories***

Application Forms will be sent to Qualifying non-CREST Shareholders and Open Offer Entitlements and Excess CREST Open Offer Entitlements will be credited to the stock account in CREST of Qualifying CREST Shareholders. Qualifying Shareholders in jurisdictions other than the United States or the other Excluded Jurisdictions may, subject to the laws of their relevant jurisdiction, take up CULS under the Open Offer in accordance with the instructions set out in this document and the Application Form. Such Qualifying Shareholders who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, countries other than the UK should, however, consult appropriate professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for any CULS.

### **7.4. *Representations and warranties relating to Overseas Shareholders***

#### **7.4.1. *Qualifying non-CREST Shareholders***

Any person completing and returning an Application Form requesting registration of the CULS comprised therein represents and warrants to the Company and/or the Receiving Agent that, except where proof has been provided to the Company's satisfaction that such person's use of the Application Form will not result in the contravention of any applicable legal requirements in any jurisdiction:

- (i) such person is not requesting registration of the CULS from within the United States;
- (ii) such person is not in any territory in which it is unlawful to make or accept an offer to acquire CULS in respect of the Open Offer or to use the Application Form in any manner in which such person has used or will use it;
- (iii) such person is not acting on a non-discretionary basis for a person located within any Excluded Jurisdiction or any territory referred to in 7.4.1(ii) above at the time the instruction to accept was given; and
- (iv) such person is not acquiring CULS with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such CULS into any of the above territories. The Company and/or the Receiving Agent may treat as invalid any acceptance or purported acceptance of the allotment of CULS comprised in an Application Form if it:
  - (a) appears to the Company or its agents to have been executed, effected or dispatched in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or
  - (b) provides an address for delivery of the certificates for CULS (or in any jurisdiction outside the United Kingdom in which it would be unlawful to deliver such certificates); or
  - (c) purports to exclude the representation and warranty required by this subparagraph 7.4.1.

#### 7.4.2. *Qualifying CREST Shareholders*

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part 4 represents and warrants to the Company that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction (i) neither it nor its client is in any territory in which it is unlawful to make or accept an offer to acquire CULS; (ii) it is not accepting on a non-discretionary basis for a person located within any territory referred to in (ii) above at the time the instruction to accept was given; and (iii) neither it nor its client is acquiring any CULS with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such CULS into any of the above territories.

#### 7.5. *Waiver*

The provisions of this paragraph 7 and of any other terms of the Open Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company, in its absolute discretion. Subject to this, the provisions of this paragraph 7 supersede any terms of the Open Offer inconsistent herewith. References in this paragraph 7 to Shareholders shall include references to the person or persons executing an Application Form and, in the event of more than one person executing an Application Form, the provisions of this paragraph 7 shall apply to them jointly and to each of them.

#### 8. **Withdrawal rights**

Qualifying Shareholders wishing to exercise or direct the exercise of statutory withdrawal rights pursuant to section 87Q(4) of FSMA after the issue by the Company of a prospectus supplementing this document must do so by lodging a written notice of withdrawal (which shall include a notice sent by any form of electronic communication) with the Receiving Agent, by post to Computershare, Corporate Actions Projects, Bristol BS99 6AH so as to be sent, not later than two Business Days after the date on which the supplementary prospectus is published. The notification of withdrawal shall be given by post and such notification will be effected at the time such notification is posted rather than at the time of receipt by the Company. The withdrawal notice must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the Participant ID and the Member Account ID of such CREST member. Notice of withdrawal which is deposited with the Receiving Agent after expiry of such period will not constitute a valid withdrawal.

Following the valid exercise of statutory withdrawal rights, application monies will be returned by post to relevant Qualifying non-CREST Shareholders at their own risk and without interest and/or Computershare will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as applicable within 14 days of such exercise of statutory withdrawal rights. Interest earned on such monies will be retained for the benefit of the Company. The provisions of this paragraph 8 of this Part 4 are without prejudice to the statutory rights of Qualifying Shareholders. In such event Qualifying Shareholders are advised to seek independent legal advice.

#### 9. **Admission, settlement and dealings**

The result of the Open Offer is expected to be announced on 28 March 2011 through a Regulatory Information Service. Application has been made to the UKLA for all of the CULS to be issued in connection with the Issue to be listed on the Official List with a Standard Listing and to the London Stock Exchange for such CULS to be admitted to trading on the Main Market. It is expected that Admission will become effective and that dealings in the CULS, fully paid, will commence at 8.00 a.m. on 29 March 2011.

The Ordinary Shares are already admitted to CREST and application will be made for admission to CREST of the CULS. All such securities, when issued and fully paid, may be held and transferred by means of CREST.

Open Offer Entitlements and Excess CREST Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11.00 a.m. on 23 March 2011 (the latest date for applications under the Open Offer). If the condition(s) to the Open Offer described above are satisfied, CULS will be issued in uncertificated form to those persons who submitted a valid application for CULS by utilising

the CREST application procedures and whose applications have been accepted by the Company. Such persons will receive their CULS on 29 March 2011 (or as soon as practicable thereafter) when the Receiving Agent will instruct Euroclear to credit the appropriate stock accounts of such persons with such persons' entitlements to CULS with effect from Admission (expected to be 29 March 2011). The stock accounts to be credited will be accounts under the same Participant IDs and Member Account IDs in respect of which the USE instruction was given.

Notwithstanding any other provision of this document, the Company reserves the right to send Qualifying CREST Shareholders an Application Form instead of crediting the relevant stock account with Open Offer Entitlements and Excess CREST Open Offer Entitlements, and to allot and/or issue any CULS in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

For Qualifying non-CREST Shareholders who have applied by using an Application Form, certificates in respect of the CULS validly applied for, and any Excess CULS successfully applied for, under the Excess Application Facility, are expected to be dispatched by post and such Qualifying non-CREST Shareholders will receive their CULS on or around 4 April 2011.

No temporary documents of title will be issued and, pending the issue of definitive certificates which is expected to take place on or around 4 April 2011, transfers will be certified against the UK share register of the Company. CULS initially issued in certificated form may subsequently be deposited into CREST in accordance with normal CREST procedures. All documents or remittances sent by or to applicants, or as they may direct, will be sent through the post at their own risk. There will be no dealings prior to Admission and post Admission dealings in CULS in advance of the crediting of the relevant CREST accounts or the issue of certificates will be at the risk of the persons concerned. A copy of this Prospectus prepared in accordance with the Listing Rules and the Prospectus Rules, has been filed with the FSA in accordance with Rule 3.2 of the Prospectus Rules.

For more information as to the procedure for application, Qualifying non-CREST Shareholders are referred to paragraph 5.1 above, and their Application Form.

## **10. Further CULS Issue**

The Issue size has been set for up to £25 million in nominal value of CULS to manage the gearing level of the Company and the potential demand for the new securities from existing and new investors in the Company.

The Board may also consider whether to issue, by way of a placing or placings, up to a further £5 million of CULS, in nominal value, under the Further CULS Issue. At the General Meeting, the Board is seeking Shareholder approval for the Company to allot and issue, on a non-pre-emptive basis, for cash further CULS of a nominal value of up to £5 million in the period up to the first anniversary of the date of this Prospectus.

The Further CULS Issue may be exercised, at the sole discretion of the Board, in whole or in part from time to time and on one or more occasions. Any further CULS will rank *pari passu* with the CULS to be issued in connection with the Issue. These further issues will be dependent on demand for CULS in the market and the Board being able to issue them on or around the prevailing market price at the time of issue provided it is at a premium to the nominal value of £1. The price will also have to cover any costs of the issue, which are expected to be £40,000 if the Further CULS Issue is subscribed in full, and not be dilutive to the value of existing Shareholders' interests.

It is expected that the maximum net proceeds of the Further CULS Issue, which are expected to be £4,960,000, will be able to be invested by the Manager in accordance with the Company's investment policy.

The CULS issued pursuant to any Further CULS Issue will be able to be converted into Ordinary Shares every six months on 30 September or 31 March beginning with the next 30 September or 31 March, whichever is earlier, following the Further CULS Issue until the maturity date of 31 March 2018.

The interest rate on any CULS issued pursuant to the Further CULS Issue will be 3.5 per cent. per annum, payable semi-annually in arrears on 30 September and 31 March in each year.

Any further CULS will be issued pursuant to a resolution of the Board up to the first anniversary of the date of this Prospectus and in issuing any further CULS the Directors will also take into account the gearing level of the Company before deciding to issue any further CULS. Any premium in the prices paid over nominal value (after deducting any costs of the issue) will be for the benefit of the Company. There can be no guarantee that the Company will issue further CULS.

Any Further CULS Issue will be carried out on the basis of a prospectus published by the Company at the time of any such issue and the results of any Further CULS Issue will be announced as soon as possible through a Regulatory Information Service

#### **11. Times and dates**

The Company shall, in its discretion and after consultation with its financial and legal advisers and with the prior written consent of Winterflood Securities, be entitled to amend the dates that Application Forms are despatched or amend or extend the latest date for acceptance under the Open Offer and all related dates set out in this document and in such circumstances shall notify the UKLA, and make an announcement on a Regulatory Information Service approved by the UKLA and, if appropriate, by Shareholders but Qualifying Shareholders may not receive any further written communication.

If a supplementary prospectus is issued by the Company two or fewer business days prior to the latest time and date for acceptance and payment in full under the Open Offer specified in this document, the latest date for acceptance under the Open Offer shall be extended to the date that is three business days after the date of issue of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

#### **12. Taxation**

Certain statements regarding United Kingdom taxation in respect of the CULS and the Open Offer are set out in paragraph 10 of Part 6 of this document. Shareholders who are in any doubt as to their tax position in relation to taking up their entitlements under the Open Offer, or who are subject to tax in any jurisdiction other than the United Kingdom, should immediately consult a suitable professional adviser.

#### **13. Further information**

Qualifying Shareholders' attention is drawn to the further information set out in this document and also, in the case of Qualifying non-CREST Shareholders, to the terms, conditions and other information printed on the accompanying Application Form.

#### **14. Governing law and jurisdiction**

The terms and conditions of the Open Offer as set out in this document, the Application Form and any non-contractual obligation related thereto shall be governed by, and construed in accordance with, the laws of England and Wales. The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Open Offer, this document or the Application Form including, without limitation, disputes relating to any non-contractual obligations arising out of or in connection with the Open Offer, this document or the Application Form. By taking up CULS whether by way of their Open Offer Entitlement or through the Excess Application Facility (as applicable) in accordance with the instructions set out in this document and, where applicable, the Application Form, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

## PART 5

### FINANCIAL INFORMATION ON THE COMPANY (INCLUDING INFORMATION ON THE COMPANY'S PORTFOLIO)

#### 1. Statutory accounts for the three Financial Years to 30 June 2010

The statutory accounts of the Company for the three Financial Years ended 30 June 2008, 30 June 2009 and 30 June 2010, in respect of which the Company's auditors, Ernst & Young LLP, of 10 George Street, Edinburgh EH2 2DZ who are members of the Institute of Chartered Accountants in England and Wales, made unqualified reports under section 495 of the Act, have been in each case, prepared in accordance with UK GAAP and delivered to the Registrar of Companies in Scotland. Such reports did not contain any statements under section 498(2) or 498(3) of the Act. Such reports together with a copy of the Company's half yearly report and accounts for the six months ended 31 December 2010, are incorporated into this document by reference and can be obtained from the Company's website, [www.standardlifeinvestments.com/its](http://www.standardlifeinvestments.com/its). Copies of them are also available for inspection at the address set out in paragraph 18 of Part 6 of this document.

#### 2. Published annual report and accounts for the three Financial Years to 30 June 2010

##### 2.1. *Historical financial information*

Historical financial information relating to the Company on the matters referred to below is included in the published annual report and audited accounts of the Company for the years stated as set out in the table below and is expressly incorporated by reference into this document.

<i>Nature of Information</i>	<i>Statutory accounts for year ended 30 June 2008</i>	<i>Statutory accounts for year ended 30 June 2009</i>	<i>Statutory accounts for year ended 30 June 2010</i>
	<i>Page No</i>	<i>Page No</i>	<i>Page No</i>
Financial highlights	2	2	2
Statement of total return	26	29	29
Balance sheet	27	30	30
Statement of cash flow	29	32	32
Notes to the financial statements	30-41	33-44	33-43
Dividends paid	14	14	14
Audit report	24-25	28	28

Unaudited financial highlights and unaudited financial statements relating to the Company for the six months ended 31 December 2010 (including comparative financial information for the six months ended 31 December 2009) are set out on page 2 and pages 12 to 21 respectively of the published half yearly report of the Company relating to that period and are expressly incorporated by reference into this document.

##### 2.2. *Selected financial information*

The information in this paragraph 2.2 has been extracted directly on a straight forward basis from the financial information referred to in paragraph 2.1 of this Part 5.

2.2.1 Selected audited historical financial information relating to the Company which summarises the financial condition of the Company for the three Financial Years ended 30 June 2010 is set out in the following table:

	<i>Year ended 30 June 2008</i>	<i>Year ended 30 June 2009</i>	<i>Year ended 30 June 2010</i>
<b>Net asset value</b>			
Net assets (£'000)	45,711	70,256	97,298
Net asset value per Share (basic)	142.68p	111.23p	154.04p

	<i>Year ended 30 June 2008</i>	<i>Year ended 30 June 2009</i>	<i>Year ended 30 June 2010</i>
<b>Income</b>			
Revenue return after taxation (£'000)	628	990	1,809
Revenue return per Share (basic)	1.94p	2.56p	2.86p
Dividend per Share	1.60p	1.60p	2.50p
<b>Total expenses</b>			
As a percentage of Shareholders' funds	1.3%	1.2%	1.2%
	<i>Year ended 30 June 2008</i>	<i>Year ended 30 June 2009</i>	<i>Year ended 30 June 2010</i>
<b>Portfolio summary</b>			
Shareholders' funds (£'000)	45,711	70,256	97,298
Loan drawn down (£'000)	3,500	6,000	2,000
Future commitments (£'000)	Nil	Nil	Nil
<b>Capital returns (basic)</b>			
Net asset value	-10.3%	-22.0%	38.5%
Share price	-8.8%	-15.9%	35.8%

2.2.2 Selected unaudited historical financial information relating to the Company for the six months ended 31 December 2010 (including comparative financial information for the six months ended 31 December 2009) is set out in the following table:

	<i>31 December 2009</i>	<i>31 December 2010</i>
<b>Net asset value</b>		
Net assets (£'000)	87,586	132,472
Net asset value per Share (basic)	138.67p	207.89p
<b>Revenue</b>		
Revenue return after taxation (£'000)	714	1,134
Revenue return per Share (basic)	1.13p	1.82p
Dividend per Share	1.00p	1.00p
<b>Portfolio summary</b>		
Shareholders' funds (£'000)	87,586	132,472
Loan drawn down (£'000)	9,000	14,000
Future Commitments (£'000)	Nil	Nil
<b>Capital returns (basic)</b>		
Net asset value	+24.7%	+35.0%
Share price	+25.9%	+55.3%

### 2.3. *Operating and financial review*

The published annual report and accounts of the Company for the three Financial Years ended 30 June 2008, 30 June 2009 and 30 June 2010 and the unaudited half yearly report of the Company for the six months ended 31 December 2010 included, on the pages indicated in the table below, descriptions of the Company's financial condition (in both capital and revenue terms), changes in its financial condition and details of the Company's portfolio of investments for each of those years:

<i>Nature of information</i>	<i>Statutory accounts for year ended 30 June 2008</i> <i>Page No</i>	<i>Statutory accounts for year ended 30 June 2009</i> <i>Page No</i>	<i>Statutory accounts for year ended 30 June 2010</i> <i>Page No</i>	<i>Half yearly report for 6 months ended 31 December 2010</i> <i>Page No</i>
Chairman's statement	3-4	3-5	3-5	3-4
Investment Manager's report	7-8	8-10	8-10	5-7
Sector Distribution of Investments	10	12	12	11

The information referred to above is incorporated into this document by reference.

Further information about the Company can be found on the Company's website – [www.standardlifeinvestments.com/its](http://www.standardlifeinvestments.com/its), including performance information for the Company's Ordinary Shares. The Company's website nor the content of any website accessible from hyperlinks on that website (or any other website) is not (or is not deemed to be) incorporated into or forms (or is deemed to form) part of this Prospectus. The ISIN (International Security Identification Number) of the Company's Ordinary Shares is GB0002959582.

### 3. **Significant change**

Since 31 December 2010 (being the end of the last financial period of the Company for which financial information has been published), there has been no significant change in the financial or trading position of the Company.

### 4. **Significant gross change**

The Issue will represent a significant gross change for the Company. If the Issue had been made on 30 June 2010, the end of the Company's last Financial Year, and if the Placing and Open Offer had been fully subscribed, the gross assets of the Company would have increased by approximately £24,470,000. If only the Minimum Net Proceeds had been raised, the gross assets of the Company would have increased by £20 million. If the Issue had been made on 30 June 2010, the Company would have derived earnings from investment of the net proceeds of the Issue in the same manner as earnings are derived from its current assets that are invested in accordance with the Company's investment policy.

## 5. Capitalisation and indebtedness

The following table shows the capitalisation and indebtedness of the Company (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 31 December 2010, the last date in respect of which half yearly financial information on the Company has been published and as at 28 February 2011, the latest practicable date prior to the publication of this document:

	<i>As at 28 February 2011 £'000</i>	<i>As at 31 December 2010 £'000</i>
<b>Total current debt</b>		
Guaranteed	–	–
Secured	14,000	14,000
Unguaranteed/unsecured	–	–
<b>Total non-current debt</b>		
Guaranteed	–	–
Secured	–	–
Unguaranteed/unsecured	–	–
<b>Shareholders' equity</b>		
Share capital	15,931	15,931
Legal reserve	–	–
Other reserves	122,570	116,541
<b>TOTAL</b>	<u>138,501</u>	<u>132,472</u>

The information in the table above is unaudited financial information on the Company as at 31 December 2010 and as at 28 February 2011 in each case, extracted from internal accounting records. On 12 January 2011 the Company bought back 512,076 Ordinary Shares of 25p each at a price of 193.38 pence per Ordinary Share pursuant to the periodic tender offer held on 31 December 2010. On 31 January 2011 the Company issued 512,076 Ordinary Shares of 25p each at a price of 209 per Ordinary Share. Save as disclosed above there has been no material change in the capitalisation of the Company since 31 December 2010.

The following table shows the Company's net indebtedness at 28 February 2010.

	<i>£'000</i>
A. Cash	71
B. Cash equivalent	–
C. Trading securities	990
<b>D. Liquidity (A + B + C)</b>	<u>1,061</u>
<b>E. Current financial receivable</b>	–
F. Current bank debt	14,000
G. Current portion of non-current debt	–
H. Other current financial debt	–
<b>I. Current financial debt (F + G+ H)</b>	<u>14,000</u>
<b>J. Net current financial indebtedness (I – E – D)</b>	–
K. Non-current bank loans	–
L. Bonds issued	–
M. Other non-current loans	–
<b>N. Non-current financial indebtedness (K + L + M)</b>	–
<b>O. Net financial indebtedness (J + N)</b>	<u>12,939</u>
Indirect indebtedness	–
Contingent indebtedness	–



The information in the table above is unaudited financial information of the Company and has been extracted from internal management accounting records as at 28 February 2011 and has not been reported on by an accountant.

## 6. Analysis of investment portfolio

As at 28 February 2011 (being the latest practicable date prior to the publication of this document), the Company's portfolio comprised of 56 investments with an aggregate unaudited value, calculated in accordance with the Company's accounting policies, of £152.1 million. The following tables show the distribution of the portfolio by region, sector, asset class and currency as at 28 February 2011.

<i>By Region</i>	<i>per cent.</i>
UK	95.9
Ireland	2.9
USA	1.2
	<u>100.0</u>
	<u>100.0</u>
	<i>per cent.</i>
<i>By Sector</i>	
Industrials	18.8
Consumer Services	26.4
Technology	15.6
Health Care	7.4
Utilities	–
Consumer Goods	9.6
Oil & Gas	4.3
Telecommunications	2.3
Financials	10.2
Basic Materials	5.4
	<u>100.0</u>
	<u>100.0</u>
<i>By Asset Class</i>	
Equity	100.0
	<u>100.0</u>
	<u>100.0</u>
<i>By Currency</i>	
Euro	2.9
Sterling	97.1
	<u>100.0</u>
	<u>100.0</u>

The Company's 20 largest holdings, as at 28 February 2011, were as follows:

<i>Stock</i>	<i>Key business</i>	<i>Valuation £000</i>	<i>per cent. of investments</i>
ASOS	Merchandising	8,764	5.8
Hargreaves Lansdown	Financial Services	6,353	4.2
Abcam	Healthcare	6,204	4.1
Mulberry Group	Textiles & Apparel	4,860	3.2
Renishaw	Data Processing & Reproduction	4,841	3.2
New Britain Palm Oil	Food & Household Products	4,806	3.2
Domino's Pizza	Food & Household Products	4,507	3.0
Paddy Power	Leisure & Tourism	4,366	2.9
XP Power	Electrical Components	4,320	2.8
First Quantum Minerals	Metals	4,272	2.8
<b>Top Ten Investments</b>		<b><u>53,293</u></b>	<b><u>35.2</u></b>
Rightmove	Financial Services	3,740	2.5
Andor Technology	Electrical Components	3,667	2.4
ITE	Leisure & Tourism	3,449	2.3
Telecom Plus	Telecommunications	3,445	2.3
Computacenter	Business Services	3,342	2.2
Homeserve	Business Services	3,272	2.2
Aveva Group	Business Services	3,149	2.1
Victrex	Chemicals	3,088	2.0
Kentz	Oil Equipment Services	2,929	1.9
Craneware	Business Services	2,862	1.9
<b>Top twenty Investments</b>		<b><u>86,236</u></b>	<b><u>57.0</u></b>

All investments are equity investments.

Unless otherwise indicated, the information as set out above is unaudited and has been extracted from internal management accounts maintained by the Company.

## PART 6

### GENERAL INFORMATION

#### 1. Incorporation and General

- 1.1. The Company was incorporated and registered in Scotland on 9 July 1993 as a public limited company under the 1985 Act with the name of EFM Small Companies Trust plc and with registered number SC145455. The Company's name was changed from EFM Small Companies Trust plc to Edinburgh Small Companies Trust plc on 25 March 1994. Since 21 August 2007 the registered name of the Company has been Standard Life UK Smaller Companies Trust plc. The Company is domiciled in Scotland. Its registered office is 7th Floor, 40 Princes Street, Edinburgh EH2 2BY (Telephone Number: +44 (0)131 528 4000).
- 1.2. Save for the Company's compliance with the Act (and the regulations from time to time made thereunder), the Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules, the Company is not an authorised or regulated entity.
- 1.3. The Company carries on business as an investment company within the meaning of section 833 of the Act. The memorandum of association of the Company provides that the Company's principal object is to undertake and carry on the business of an investment trust company in all its branches. The objects of the Company are set out in full in clause IV of the memorandum of association which is available for inspection at the address set out in paragraph 18 below.
- 1.4. The Investment Manager is a private limited company and was incorporated in Scotland under the 1985 Act with registered number SC111488 on 7 June 1988. The Investment Manager operates under the Act. Its registered office and principal place of business is 1 George Street, Edinburgh EH2 2LL (Telephone number: +44 (0)131 225 2345). The Investment Manager is domiciled in Scotland. The Investment Manager is authorised and regulated by the Financial Services Authority and has significant experience of providing investment management services.
- 1.5. The Company's Custodian is BNP Paribas, a French societe anoyne approved as a bank and provider of investment services pursuant to the provisions of the French Monetary and Financial Code (Book V, Titres I and III) relating to institutions of the banking sector and to investment service providers. It was incorporated in France with registered number 552.108.011 RCS Paris on 17 April 1936. The Custodian also: operates under the French Commercial Code relating to trading companies; is authorised in France by the Comité des Etablissements de Crédit et des Entreprises d'Investissement; is supervised in France by the Autorité des Marchés Financiers and the Commission Bancaire; and is regulated by the Financial Services Authority for the conduct of its business in the United Kingdom. The Custodian is domiciled in France. It has its registered office at 3 rue d'Antin, 75002 Paris, France and operates through its branch in London at 55 Moorgate, London EC2R 6PA (Telephone number: +44 (0)20 7595 2000).

#### 2. Share capital

- 2.1. The authorised share capital of the Company is £37,499,749 divided into 149,998,996 Ordinary Shares of 25 pence each.
- 2.2. The following table shows the issued share capital of the Company as at 30 June 2010 (including 559,175 Shares held in treasury) (being the last date in respect of which the Company has published audited financial information) and the issued share capital of the Company as at 23 February 2011 (being the latest practicable date prior to the publication of this document):

	30 June 2010		28 February 2011	
	Nominal Value (£)	Number of Ordinary Shares	Nominal Value (£)	Number of Ordinary Shares
Issued share capital (fully paid)	15,790,845	63,163,381	15,930,639	63,722,556

- 2.3. All of the Ordinary Shares are in registered form and are eligible for settlement in CREST.

- 2.4. There have been no changes to the Company's issued share capital since 30 June 2010, the date to which the Company's latest audited accounts were prepared, with the exception of the following:
- 2.4.1. On 7 July 2010, the Company bought back into treasury 3,158,167 Ordinary Shares at a price of 144.84 pence per Ordinary Share pursuant to the periodic tender offer held on 30 June 2010 which resulted in 60,005,214 Ordinary Shares with voting rights and a further 3,717,342 Ordinary Shares in treasury.
  - 2.4.2 On 7 September 2010 the Company issued out of treasury 100,000 Ordinary Shares at a price of 166.50 pence per Ordinary Share.
  - 2.4.3 On 13 September 2010 the Company issued out of treasury 350,000 Ordinary Shares at a price of 168.50 pence per Ordinary Share.
  - 2.4.4 On 17 September 2010 the Company issued out of treasury 150,000 Ordinary Shares at a price of 170.75 pence per Ordinary Share
  - 2.4.5 On 20 September 2010 the Company issued out of treasury 3,117,342 Ordinary Shares at a price of 170.75 pence per Ordinary Share.
  - 2.4.6. On 12 January 2011 the Company bought back 512,076 Ordinary Shares at a price of 193.38 pence per Ordinary Share pursuant to the periodic tender offer held on 31 December 2010.
  - 2.4.7 On 31 January 2011, the Company issued out of treasury 512,076 Ordinary Shares at a price of 209.00 pence per Ordinary Share.
- 2.5. The Company's issued share capital history during the last three Financial Years is as follows:
- 2.5.1. During the year ended 30 June 2008, 559,175 Ordinary Shares were bought back into treasury by the Company.
  - 2.5.2. On 6 October 2008, 1,164,545 warrants were exercised as a result of the last exercise date of the warrants on 30 September 2008 which resulted in the issue of the same number of Ordinary Shares by the Company. As a result, the total issued share capital at the date of this document is 33,202,130 (excluding treasury shares). A total of 1,732,965 warrants lapsed without value on 14 October 2008.
  - 2.5.3. On 4 February 2009, in connection with the reconstruction of Gartmore Smaller Companies Trust p.l.c. ("Gartmore") 31,189,825 conversion shares of 75p each created in the capital of the Company and issued pursuant to the reconstruction of Gartmore (the "Conversion Shares") were issued to former Gartmore shareholders. On 14 April 2009, 27,545,948 of the Conversion Shares were converted into 26,273,612 Ordinary Shares. On 11 June 2009, the remaining 3,643,877 Conversion Shares were converted into 3,687,639 Ordinary Shares, which resulted in there being only one class of share in issue as at 30 June 2009 and 30 June 2010; being 63,163,381 Ordinary Shares of 25 pence each, with voting rights.
  - 2.5.4. On 7 July 2010, the Company bought back into treasury 3,158,167 Ordinary Shares of 25p at a price of 144.84p per Ordinary Share pursuant to the periodic tender offer held on 30 June 2010 which resulted in 60,005,214 Ordinary Shares with voting rights and a further 3,717,342 Ordinary Shares in treasury.
  - 2.5.5 On 7 September 2010 the Company issued out of treasury 100,000 Ordinary Shares at a price of 166.50 pence per Ordinary Share.
  - 2.5.6 On 13 September 2010 the Company issued out of treasury 350,000 Ordinary Shares at a price of 168.50 pence per Ordinary Share.
  - 2.5.7 On 17 September 2010 the Company issued out of treasury 150,000 Ordinary Shares at a price of 170.75 pence per Ordinary Share
  - 2.5.8 On 20 September 2010 the Company issued out of treasury 3,117,342 Ordinary Shares at a price of 170.75 pence per Ordinary Share.

2.5.9. On 12 January 2011 the Company bought back 512,076 Ordinary Shares at a price of 193.38 pence per Ordinary Share pursuant to the periodic tender offer held on 31 December 2010.

2.5.10. On 31 January 2011, the Company issued out of treasury 512,076 Ordinary Shares at a price of 209.00 pence per Ordinary Share.

2.6. No share or loan capital of the Company has been issued or agreed to be issued or, save in connection with the Issue, is now proposed to be issued, for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital.

2.7. No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.

2.8. The provisions of section 561 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are or are to be paid up in cash) apply to the authorised but unissued share capital of the Company (to the extent not disapplied pursuant to section 570 of the Act).

### **3. Share capital authorities**

3.1. At the General Meeting, Shareholders will be asked to pass the Resolution, which contains the following operative provisions, some of which will, if passed affect the Company's share capital:

3.1.1. to authorise the Directors to allot the CULS pursuant to the Issue and Further CULS Issue and Ordinary Shares pursuant to the exercise of the Conversion Rights up to a maximum nominal amount of £30 million;

3.1.2. to authorise the Directors to waive statutory pre-emption rights in relation to the allotment of CULS pursuant to the Firm Placing, any Further CULS Issue and Ordinary Shares pursuant to the exercise of Conversion Rights up to a maximum nominal amount of £17.5 million; and

3.1.3. to amend the Company's investment policy to provide: (a) that the Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating investment risks in its investments in order to protect the Company's portfolio); and (b) for a gearing limit of up to 25 per cent. of the Company's net assets at the time of drawdown. As explained in more detail under the paragraph headed "Investment policy" in Part 2 of this document.

3.2. It is expected that the CULS in relation to the Placing and Open Offer will be issued pursuant to a resolution of the Board on or around 28 March 2011 conditional upon Admission.

### **4. Articles of the Company**

#### **4.1. General**

The Articles were adopted on 26 January 2009 by way of special resolution and contain *inter alia*, the provisions as summarised below.

In this paragraph "Statutes" means the Act and every statute (including any orders, regulations or other subordinate legislation made under the Act) from time to time in force concerning companies so far as they apply to the Company.

#### **4.2. Rights attaching to the ordinary shares**

4.2.1. The Ordinary Shares (which at the date of this document are the only class of share in issue in the Company) have attached thereto the respective rights and privileges and are subject to the respective limitations and restrictions set out in this paragraph 4.2.

4.2.2. As to dividends:

The Company in general meeting may by ordinary resolution declare dividends, but only on the recommendation of the Board and no dividend shall be exceed the amount

recommended by the Board. The Board may also from time to time pay such interim dividends as appear to them to be justified by the profits of the Company. Any such dividend so declared shall be paid proportionately to the amounts paid up on the member's Shares in the accounting period in respect of which the dividend is paid. The Company may pay dividends of specific assets (rather than cash) where this is recommended by the Board and approved by ordinary resolution of the members.

Any dividend unclaimed for a period of 12 years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

Surpluses arising from the realisation of investments cannot be distributed as dividends.

In the event that a restriction notice (as detailed in paragraph 4.2.4(b) below) has been served, and the person holding the restricted Shares holds at least 0.25 per cent in number or nominal value of the Shares in the Company, the Board may withhold the payment of all or part of any dividend (including shares issued in lieu of dividends) due on those restricted Shares.

#### 4.2.3. As to liquidation rights:

The Company may be wound up (voluntarily or by the Court). The liquidator may, with the authority of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company, and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, may for such purposes set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the authority of a special resolution, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributor shall be compelled to accept any shares or other property in respect of which there is a liability.

#### 4.2.4. As to voting:

##### (a) General voting rights

The holder of an Ordinary Share shall be entitled to receive notice of and to attend, speak and vote at all general meetings in person (or, if a corporation, by a duly authorised representative) or by proxy. At any general meeting, on a show of hands every holder of Ordinary Shares who is present and entitled to vote shall have one vote and upon a poll every such holder of shares present in person, by corporate representative or by proxy shall have one vote in respect of each share held by him. However, no member shall be entitled to exercise a vote at any general meeting (or class meeting) (i) in relation to an Ordinary Share if any call or other sum immediately payable by him in respect of that Ordinary Share remains unpaid; or (ii) in relation to any Shares if a member has been served with a direction notice by the Directors in the manner described in paragraph (b) below and has failed to supply to the Company the information required thereby within 14 days.

##### (b) Restrictions on voting

If a holder of Shares or any person appearing to be interested in those Shares, is served with a statutory notice by the Company under the Act (which notice demands the disclosure of certain information regarding the receiver's interest in the Shares) but defaults in supplying to the Company the information thereby required within 14 days of the service of such notice then the Directors may serve on the holder of those Shares a further notice (a "restriction notice") the effect of which is, *inter alia*, to prevent the holder from voting at any general meeting or class meeting of the Company in respect of those Shares.

#### 4.2.5. As to redemption rights:

The Company may (subject to company law and any rights conferred on the holders of any other Shares) issue Shares which are to be redeemed, or are liable to be redeemed, at the option of the Company or the holder of the Share.

#### 4.3. *Issue of shares*

The Directors may, subject to the provisions of the Act and of the Articles, dispose of any unissued Shares and may offer, allot, grant options over, or otherwise deal with or dispose of them to such persons, at such times and for such consideration and upon such terms as the Board may decide.

#### 4.4. *Transfer of shares*

The Articles provide that Shares may be transferred on the following basis, subject to any specific restrictions set out in the Articles (including those detailed below) which may be applicable:

- (i) any member may transfer all or any of his uncertificated Shares by means of a relevant system in such manner provided for, and subject as provided in the Uncertificated Securities Regulations 2001 and the rules of any relevant system, and accordingly no provision of the Articles shall apply in respect of an uncertificated share to the extent that it requires or contemplates the effecting of a transfer by an instrument in writing or the production of a certificate for the Share to be transferred; and
- (ii) any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a partly paid share) the transferee, and the transferor shall be deemed to remain the holder of the share concerned until the name of the transferee is entered in the register of members of the Company in respect of it.

However the Board may, in its absolute discretion and without giving any reason for so doing, decline to register any transfer of any Share which is not fully paid provided that where such Share is admitted to the Official List such discretion may not be exercised in such a way as to prevent dealings in Shares of that class from taking place on an open and proper basis.

The Board may also decline to register a transfer of an uncertificated Share in the circumstances set out in the Uncertificated Securities Regulations 2001, and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

In relation to certificated Shares, the Board may also decline to register any transfer unless:

- (i) the instrument of transfer is left at the registered office of the Company or such other place as the Board may from time to time determine accompanied (save in the case of a transfer by a person to whom the Company is not required by law to issue a certificate and to whom a certificate has not been issued) by the certificate for the Share to which it relates and such other evidence as the Board may reasonably require to show the right of the person executing the instrument of transfer to make the transfer;
- (ii) (if stamp duty is generally chargeable on transfers of certificated Shares) the instrument of transfer is duly stamped or adjudged or certified as not chargeable to stamp duty;
- (iii) the instrument of transfer is in respect of only one class of Share; and
- (iv) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four.

The Directors may in addition decline, subject to the Uncertificated Securities Regulations 2001, to register the transfer of a share subject to a restriction notice (as detailed in paragraph 4.2.4(b) above) where the person holding the restricted Shares holds at least 0.25 per cent. in number or nominal value of the Shares in the Company. This restriction cannot be applied where the transfer is pursuant to an "arms length sale".

#### 4.5. *Variation of rights*

All or any of the rights for the time being attached to any class of Shares in issue may (whether or not the Company is being wound up) be varied either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class (excluding any Shares of that class held as treasury shares) or with the sanction of a special

resolution passed at a separate general meeting of the holders of those Shares. All the provisions of the Articles as to general meetings of the Company (described at section 12 below) shall, *mutatis mutandis*, apply to any such separate general meeting, but so that the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued Shares of the class (excluding any Shares of that class held as treasury shares), (but so that at any adjourned meeting one holder present in person or by proxy (whatever the number of Shares held by him) shall be a quorum), that every holder of Shares of the class present in person or by proxy (excluding any Shares of that class held as treasury shares) shall be entitled on a poll to one vote for every Share of the class held by him (subject to any rights or restrictions attached to any class of Shares) and that any holder of Shares of the class present in person or by proxy may demand a poll. The foregoing provisions shall apply to the variation of any special rights which only attach to certain Shares of a particular class as if the shares carrying such special rights formed a separate class.

#### 4.6. *Alteration of capital*

The Company may from time to time by ordinary resolution:

- (i) increase its share capital by such sum to be divided into Shares of such amount as the resolution shall prescribe;
- (ii) consolidate, or consolidate and then divide, all or any of its share capital into Shares of larger amount than its existing Shares;
- (iii) sub-divide all or any of its Shares into Shares of smaller amounts and the resolution may determine that, as between the Shares resulting from the sub-division, any of them may be given any preferred, deferred or other rights or be subject to any restrictions as the Company has power to attach to unissued or new Shares as compared with the others; and
- (iv) cancel any Shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the Shares so cancelled.

The Company may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or any other undistributable reserve in any manner permitted by law.

#### 4.7. *Untraced shareholders*

Subject to various notice requirements, the Company may sell on the London Stock Exchange at the best price reasonably obtainable any certificated Share (including further Shares issued in respect of that Share) provided that for a period of 12 years at least three dividends on those Shares have become payable and no such dividend has been claimed by presentation at a bank of the relevant cheque or warrant or been satisfied by the transfer of funds to a bank account designated by the holder of (or person entitled to) the Shares or otherwise been transferred through CREST (or another relevant service), and so far as the directors are aware the Company has not received any communication during the relevant period from the holder of, or person entitled to those Shares.

#### 4.8. *Capital reserve*

The Board shall establish a reserve to be called the "capital reserve" and shall either carry to the credit of such reserve from time to time all capital profits or appreciations arising on the sale, transposition, payment of or revaluation of any investment or other capital asset of the Company in excess of the book value thereof or apply the same in providing for depreciation or contingencies. For the avoidance of doubt, accrued but unpaid interest or any sum received in respect of accrued but unpaid interest shall not be treated as capital profits or appreciations arising on the sale, transposition, payment off of or revaluation of any investment or other capital asset. Any losses realised on the sale, transposition, payment off of or revaluation of any investment or other capital asset and any other expenses, loss or liability (or provision thereof) considered by the Board to be of a capital nature shall be carried to the debit of the capital



reserve except in so far as the Board may in its discretion decide to make good the same out of other funds of the Company. Any increase or diminution in the amount of any index-linked stock or other index-linked obligation of the Company shall be carried to the debit or credit of the capital reserve, except so far as the Board may in its discretion decide to make good the same out of or credit the same to other funds or reserves of the Company.

Subject to company law and without prejudice to the foregoing generality, the Board may determine whether any amount received by the Company is to be dealt with as income or capital or partly one and partly the other. The Board may determine whether any cost, liability or expense (including, without limitation, any costs incurred or sums expended in connection with the management of the assets of the Company or finance costs (including, without limitation, any interest payable by the Company in respect of any borrowings of the Company)) is to be treated as a cost, liability or expense chargeable to capital or to revenues or partly one and partly the other, having regard, *inter alia*, to the investment objectives of the Company, and to the extent the Board determines that any such cost, liability or expense should reasonably and fairly be apportioned to capital the Board may debit or charge the same to the capital reserve.

Any surplus over the book value derived from the sale or realisation of any capital asset and any other sums representing capital profits within the meaning of section 265 of the 1985 Act or section 832 of the Act or any other accretions to capital assets, including in particular any sums resulting from the writing up of the book values of any capital assets and any surpluses arising from the realisation of investments, shall not be transferred to the revenue account or be regarded or treated as profits of the Company available for dividend or any other distribution within the meaning ascribed thereto by section 263(2) of the 1985 Act or section 829 of the Act (otherwise than by way of the redemption or purchase of any of the Shares in accordance with section 160 or 162 of the 1985 Act or Chapter 3 or 4 of Part 18 of the Act).

#### 4.9. **Borrowing powers**

The Board may, subject to the restrictions set out below, exercise all of the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and, subject to company law and the Articles, to issue debentures, debenture stock and other securities, whether outright or as security for any debt, liability or obligation of the Company or of any third party.

The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (so far, as regards subsidiaries, as by such exercise it can secure) that the aggregate amount for the time being remaining undischarged of all moneys borrowed by the Group (which expression in the Articles means and includes the Company and its subsidiaries for the time being with the phrase "company in the Group" being construed accordingly) exclusive of borrowings by one member of the Group from another, together with any fixed or minimum premium payable on final redemption or repayment thereof (or, in the case of an index-linked stock or other index-linked obligation, the highest amount that would be repayable thereon under the provisions of the instrument constituting or regulating such stock or obligation if such stock or obligation were to be redeemed on the date on which the calculation falls to be made) after deducting the amount of cash deposited shall not at the time of borrowing, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed the aggregate of the amount paid up on the share capital of the Company and the amount standing to the credit of the capital and revenue reserves (including, without prejudice to the generality of the foregoing, any share premium account, capital reserve, capital redemption reserve, revaluation or other reserve and any balance on the revenue account), all as shown in the latest balance sheet but:

- (i) adjusted in respect of any variation in the paid up share capital, share premium account or capital redemption reserve since the date to which that balance sheet was made up;
- (ii) excluding any amounts set aside for taxation and any amounts attributable to minority or outside shareholders in subsidiaries;

- (iii) deducting any debit balance on the revenue account or other reserve account at the date to which that balance sheet was made up; and
- (iv) deducting the gross amount of any distributions (other than distributions made out of profits earned since the date to which that balance sheet is made up and distributions to another company in the Group) in cash or specie made since that date and not provided for in that balance sheet.

The term “moneys borrowed” shall include (but shall not be restricted to):

- (i) the principal amount for the time being outstanding of any debentures (as defined in section 738 of the Act) together with any fixed or minimum premium payable on final redemption or repayment thereof (or, in the case of an index-linked stock or other index-linked obligation, the highest amount that would be repayable thereon under the provisions of the instrument constituting or regulating such stock or obligation if such stock or obligation were to be redeemed on the date on which the calculation falls to be made) notwithstanding that the same be issued in whole or in part for a consideration other than cash; and
- (ii) the nominal amount of any issued share capital of any corporate body and the principal amount of any moneys borrowed, the redemption or repayment whereof is guaranteed or secured or the subject of an indemnity by the Company or any of its subsidiaries, together in either case with any fixed or minimum premium payable on final redemption or repayment (or, in the case of an index-linked stock or other index-linked obligation, the highest amount that would be repayable thereon under the provisions of the instrument constituting or regulating such stock or obligation if such stock or obligation were to be redeemed on the date on which the calculation falls to be made), except so far as either (i) such share capital or the debt owing in respect of such borrowed moneys is for the time being beneficially owned by the Company or any of its subsidiaries or (ii) such borrowed moneys are otherwise taken into account as moneys borrowed by the Company or any of its subsidiaries.

#### 4.10. *Directors*

##### 4.10.1. *Number of Directors*

The minimum number of Directors is two and the maximum number of Directors is seven.

##### 4.10.2. *Appointment and removal of Directors*

The Company may by ordinary resolution appoint any person who is willing to act to be a Director (either as an addition to the Board or to fill a vacancy). The Board may also appoint any person to the Board (either as an addition or to fill a vacancy) for the period from the date of appointment until the next annual general meeting.

Each Director shall retire from office at the third annual general meeting after the annual general meeting at which he was last elected until the ninth anniversary of his appointment and annually thereafter.

The Company may remove a Director at any time by special resolution. The office of Director shall also be vacated if:

- (i) he resigns his office by notice in writing; or
- (ii) by notice in writing he offers to resign and the Board resolves to accept such offer; or
- (iii) by notice in writing his resignation is requested by all of the other Directors and all of the other Directors are not less than three in number; or
- (iv) he is or has been suffering from mental ill health or becomes a patient for any purpose of any statute relating to mental health and the Board resolves that his office is vacated; or

- (v) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; or
- (vi) he becomes bankrupt or compounds with his creditors generally; or
- (vii) he is prohibited by law from being a Director; or
- (viii) he ceases to be a Director by virtue of company law or is removed from office pursuant to the Articles.

#### 4.10.3. *Directors' fees, expenses and remuneration*

The fees paid to Directors for their services as Directors shall not exceed £150,000 in aggregate or such higher amount as the Company may by ordinary resolution determine. A Director may also be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Board (or any committee thereof) and any other meeting that he is entitled to attend and all other costs and expenses properly and reasonably incurred by him in the conduct of the Company's business or in the discharge of his duties. A Director who is appointed to any executive office or who performs services which, in the opinion of the Board, go beyond the ordinary duties of a Director may be paid such extra remuneration as the Board (or any committee thereof) may think fit.

#### 4.10.4. *Directors' interests*

No Director or proposed or intending director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any contract in which any Director is in any way interested be liable to be avoided, nor shall any Director who is so interested be liable to account to the Company or the members for any remuneration, profit or other benefit realised by the contract by reason of the Director holding that office or of the fiduciary relationship thereby established.

A Director may hold any other office or place of profit with the Company (except that of Auditor) for such period (subject to company law) and upon such terms as the Board may decide, and may be paid such extra remuneration for so doing as the Board or any committee authorised by the Board may decide.

A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested or as regards which it has any power of appointment, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him/her as a Director or officer of or from his interest in the other company.

A Director may act by himself or his firm in a professional capacity (otherwise than as Auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

A Director shall not vote on or be counted in the quorum in relation to any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested.

A Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board in respect of any actual or proposed transaction or arrangement with the Company in which he has an interest which (taken together with any interest of any person connected with him) is to his knowledge an interest of which he is aware, or ought reasonably to be aware, does conflict, or can reasonably be regarded as likely to give rise to a conflict, with the interests of the Company and, if he shall do so, his vote shall not be counted (subject to certain carve-outs).

A Director who is in any way, whether directly or indirectly, interested in an actual or proposed transaction or arrangement with the Company shall declare the nature and extent of his interest at the meeting of the Board at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested.

In respect of any situation in which a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, the Board may authorise the matter, on such terms as they may determine, provided that:

- (i) the Director has declared the full nature and extent of the situation to the Board; and
- (ii) it is proposed (either by the Director in question or another) that the Board authorise the matter and upon the resolution to do so the requirement for the quorum is met without counting the Director in question and the resolution was agreed to without such Director voting or would have been agreed to if that conflicted Director's vote had not been counted.

Subject to company law and the Listing Rules, the Company may by ordinary resolution suspend or relax the above provisions on directors' conflicts to any extent or ratify any contract not properly authorised by reason of a contravention of the Articles.

#### 4.10.5. *Voting and quorum*

Questions arising at any meeting shall be determined by a majority of votes.

The quorum at Board meetings shall be two Directors (unless fixed at another number by the Board).

#### 4.11. *Winding up*

On a winding up of the Company (whether the liquidation is voluntary or by the Court), the liquidator may, with the authority of a special resolution of the Company, divide among the members in specie or kind the whole or any part of the assets of the Company. Further details are given at paragraph 4.2.3 above.

#### 4.12. *General Meetings*

Annual general meetings shall be convened by not less than 21 clear days' notice in writing. All other general meetings shall be called by not less than 14 clear days' notice in writing. The notice shall specify the place, day and time of the meeting, and the general nature of the business to be transacted. Notice of every general meeting shall be given to all members other than any who, under the provisions of the Articles or the terms of issue of the Shares they hold, are not entitled to receive such notices from the Company, and also to the Auditors. For the avoidance of doubt, CULS Holders will not be entitled to attend general meetings of the Company's Shareholders. CULS Holders will have the right to attend meetings of the CULS Holders only.

The Directors may, from time to time, make such arrangements for the purpose of controlling the level of attendance at any such place as they shall, in their absolute discretion, consider appropriate, and may from time to time vary any such arrangements or make any new arrangements in place of them, provided that the entitlement of a member to attend a meeting or adjourned meeting shall be satisfied by his being given the entitlement to attend at such place as may be specified by the Directors for the purpose.

The Board may direct that persons wishing to attend any general meeting should submit to such searches or other security arrangements or restrictions as the Board shall consider appropriate in the circumstances and shall be entitled in its absolute discretion to refuse entry to, or to eject from, such general meeting any person who fails to submit to such searches or otherwise to comply with such security arrangements or restrictions.

## 5. Directors and their interests

### *The Company*

- 5.1. (i) The interests of the Directors in the share capital of the Company at the date of this document, all of which are beneficial, are as follows:

	<i>No. of Ordinary Shares</i>
Donald MacDonald	127,000
Carol Ferguson	31,727
Lynn Ruddick	16,870
David Woods	5,000

- (ii) As at the date of this document, none of the Directors had any options over the share capital of the Company.

The following Directors and persons connected with the Directors for the purposes of the Disclosure Rules and Transparency Rules have agreed to take CULS in the Placing or intend to apply for CULS in the Open Offer:

	<i>Nominal amount of CULS (£)</i>
Donald MacDonald	24,912
Carol Ferguson	6,223
Lynn Ruddick	3,309
David Woods	980

### *General*

- 5.2. Each of Donald MacDonald, Carol Ferguson, Lynn Ruddick and David Woods has been appointed pursuant to a letter of appointment with the Company dated 28 April 1994 and as amended by a supplemental letter of appointment dated 9 February 1999 in respect of Donald MacDonald, 5 May 2005 in respect of David Woods and 4 February 2009 in respect of each of Carol Ferguson and Lynn Ruddick. The current period of service for each of Donald MacDonald, Carol Ferguson and David Woods expires at the next annual general meeting of the Company to be held following the Financial Year ended 30 June 2011, subject to renewal at that time. The current period of service for Lynn Ruddick expires at the annual general meeting of the Company to be held following the year ended 30 June 2012, subject to renewal at that time. The Directors' appointments and re-appointments are subject to the Articles from time to time (including those provisions for periodic retirement and early cessation). The Company has the right to terminate each appointment without compensation if the relevant Director is required to vacate office in accordance with the Articles and/or the Act and, subject thereto, the letters of appointment do not contain any contractual provisions regarding the compensation which would be payable upon early termination by the Company. None of the Directors receive any pension benefits from the Company, nor do they participate in any bonus or incentive schemes. Accordingly, there are no amounts set aside or accrued by the Company to provide pension, retirement or similar benefits to the Directors. The Company will also pay insurance premiums in respect of directors' and officers' insurance taken out on behalf of the Directors. Donald MacDonald is entitled to an annual fee of £22,000 for his services as Chairman of the Board. Lynn Ruddick (who is Chairman of the audit and management engagement committee) is entitled to a fee of £17,500 and each of Carol Ferguson and David Woods is entitled to a fee of £15,500 in respect of their services.
- 5.3. None of the Directors has a service contract or consultancy agreement with the Company nor are such contracts proposed.
- 5.4. None of the Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company which has been effected by the Company since its incorporation.
- 5.5. The aggregate of the remuneration (including any contingent or deferred compensation) paid and benefits in kind granted to the Directors by the Company in respect of the financial year ended 30 June 2010 was £64,000, made up as follows:

(£)

Donald MacDonald	20,000
Carol Ferguson	14,000
Lynn Ruddick	16,000
David Woods	14,000

- 5.6. The Company has purchased directors' and officers' liability insurance for the benefit of the Directors of the Company. The current annual premium for this insurance is £7,420 (plus Insurance Premium Tax) and the aggregate limit of liability for all claims is £5 million.
- 5.7. No loan or guarantee has been granted or provided by the Company to any Director.
- 5.8. Details of the companies (other than the Company) and partnerships of which the Directors have been a member of the administrative, management or supervisory body or a partner at any time during the five years immediately preceding the date of this document (apart from their directorships of the subsidiaries of any issuers of which the Directors are or have been members of the administrative, management or supervisory bodies) are as follows:

<i>Director</i>	<i>Current Appointments</i>	<i>Previous Appointments</i>
Donald MacDonald	Queen Street Investments Limited Scottish Chamber Orchestra Limited Standard Property Investment Limited Nursing Home Management Limited Orrmac (No 50) Limited Caledonian Bank Limited Hydrainer Holdings Limited Orrmac (No: 500) Limited Clyde & Forth Press Limited The Dunfermline Press Limited SCO Trust Limited Morrison Street Hotel Limited Edinburgh Assets Limited MacDonald Orr Limited City Inn Limited First Edinburgh Homes Limited Orchard Incorporations (13S) Limited Millbank Lounge Limited Harviestoun Brewery (Holdings) Limited	Edinburgh Festival Centre Limited Edinburgh International Festival Society The Caledonian Brewing Company Limited Stortext FM Limited Orrmac (No: 800) MacDonald Orr Corporate Finance Limited CB Finance Limited Hathersage Nursing Home Limited National Trust for Scotland
Carol Ferguson	Chartered Accountants Compensation Scheme Limited The Association of Investment Companies The Monks Investment Trust Public Limited Company Vernalis plc BlackRock Greater Europe Investment Trust plc Invesco Asia Trust plc	Ardana plc (in administration) Gartmore Smaller Companies Trust PLC (in liquidation)
Lynn Ruddick	WPA Pension Trustees Limited British Assets Trust plc Fidelity Special Values plc Scottish & Newcastle Pension Plan Trustee Limited Charlotte Securities Limited BlackRock Frontiers Investment Trust PLC	Gartmore Smaller Companies Trust PLC (in liquidation)

<i>Director</i>	<i>Current Appointments</i>	<i>Previous Appointments</i>
David Woods	The Moller Centre for Continuing Education Limited Steria (Management Plan) Trustees Limited Steria (Retirement Plan) Trustees Limited Steria Electricity Supply Pension Trustees Limited Murray Income Trust PLC Steria (Pension Plan) Trustees Limited Steria (Pooled Investments) Trustees Limited Securis Income Fund Limited Royal Liver Assurance Phoenix Group Holdings PLC Phoenix Life Holdings Limited The Scottish Provident Pension Fund	Kiln Group Limited Pearl Group Holdings (No. 1) Limited Edinburgh Java Trust plc Capital Opportunities Trust PLC Resolution plc Xansa PLC Pension Funds

Further details of each Director's relevant experience can be found on page 30 in Part 2 of this document.

Save as disclosed above and for subsidiaries of companies listed above, none of the Directors has in the five years preceding the date of this document been a director, or a member of the administrative, management or supervisory body, of any company or a partner in any partnership.

- 5.9. Subject as described in paragraphs 5.10 and 5.11 of this Part 6, as at the date of this document none of the Directors;
- 5.9.1 has any convictions in relation to fraudulent offences for at least the previous five years;
- 5.9.2 has been the subject of any bankruptcies, receiverships or liquidations when acting in the capacity of a member of the administrative, management or supervisory body or a partner of the companies and/or partnerships referred to in paragraph 5.8 of this Part 6, save as disclosed in paragraphs 5.10 and 5.11 of this Part 6; or
- 5.9.3 has been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years.
- 5.10. Carol Ferguson was a non-executive director of Ardana plc which went into administration on 30 June 2008.
- 5.11 Each of Carol Ferguson and Lynn Ruddick were non-executive directors of Gartmore Smaller Companies Trust PLC which went into voluntary liquidation on 3 February 2009. Gartmore Smaller Companies Trust PLC is not subject to insolvency proceedings.
- 5.12. There are no potential conflicts of interest between any duties of the Directors to the Company and their private interests and/or other duties. There are no arrangements or undertakings with any major shareholders, customers, suppliers or others pursuant to which any of the Directors were selected as a Director or a member of any committee of the Board. All of the Directors are independent of the Investment Manager and any other company in the same group of companies as the Investment Manager.

## 6. Substantial share interests

- 6.1. As at the close of business on 28 February 2011 (being the latest practicable date prior to the publication of this document) the Company was aware of the following persons who directly or indirectly were interested in 3 per cent. or more of the Company's issued share capital:

<i>Name of Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>per cent. Total Share Capital</i>
M&G Investment Management	8,160,008	12.81
Standard Life Investments	6,537,543	10.26
Brewin Dolphin, stockbrokers	5,153,473	8.09
East Riding of Yorkshire	3,100,485	4.87
Transact (ND)	2,664,553	4.18
Henderson Global Investors	2,500,000	3.92
Standard Life Savings Limited Share Plan	2,445,063	3.84
Rathbones	2,353,955	3.69
Legal & General Investment Management	1,997,876	3.14

- 6.2. As at the close of business on 28 February 2011 (being the latest practicable date prior to the publication of this document), the Directors were not aware of any person or persons who will or could, directly or indirectly, jointly or severally, exercise control over the Company.

- 6.3. None of the Company's Shareholders have different voting rights.

## 7. Material contracts

Save as described below, the Company has not (i) entered into any material contracts (other than contracts in the ordinary course of business) within two years immediately preceding the publication of this document; or (ii) entered into any contracts that contain provisions under which the Company has any obligation or entitlement that is material to the Company as at the date of this document.

### 7.1. *Investment Management Agreement*

Under the terms of the Investment Management Agreement entered into between the Company and the Investment Manager, the annual investment management fee is 0.65 per cent. of the gross asset value of the Company. The fee on uninvested cash and cash equivalents is 0.2 per cent. per annum.

A performance fee is also payable if the Company out-performs its benchmark on a capital returns basis by at least 1 per cent. per annum. The amount of the performance fee will be 20 per cent. per annum of the Company's out-performance, capped at 0.6 per cent. per annum of the Company's gross assets. The Company's benchmark is the Hoare Govett Smaller Companies (ex investment companies) capital return index. The performance fee will be subject to protections in respect of underperformance as follows:

The performance fee is subject to a "high water mark" such that if the NAV per Ordinary Share at the end of the relevant period is less than the NAV per Ordinary Share at the start of the Financial Year two years prior to the current year, increased at an annualised rate of 1 per cent. per annum above the benchmark, no performance fee is payable in respect of that period (i.e. a three year rolling period).

The Investment Management Agreement will continue unless and until terminated by either party giving to the other not less than one year's notice. The Investment Management Agreement can, in addition, be terminated forthwith by the Company with no compensation being payable, if, *inter alia*, the Investment Manager ceases to be an authorised person under the Financial Services and Markets Act 2000, or becomes insolvent, is wound up or has a receiver appointed over the whole or a substantial part of its assets. In the event that the Company terminates the Investment Management Agreement other than in either of the two preceding ways, the Investment Manager is entitled to receive a compensation payment based on a formula set out in the Investment Management Agreement.

The Investment Manager is also contracted by the Company to provide secretarial and administrative services. The Investment Manager receives a fee in relation to the provision of



these services of £108,000. The Company has agreed that the Investment Manager may subcontract those services and the Investment Manager has subcontracted those services to Aberdeen Asset Management plc which is appointed as Secretary to the Company. The contractual relationship between the Investment Manager and Aberdeen Asset Management plc is recorded in an agreement dated 13 and 14 October 2003 among the Investment Manager and Edinburgh Fund Managers plc which was novated such that Aberdeen Asset Management plc became entitled to the rights, and subject to the obligations of, Edinburgh Fund Managers plc with effect from 30 November 2007.

## 7.2. **Custody Agreement**

Pursuant to the terms of the Custody Agreement entered into between the Company and BNP Paribas Securities Services S.A. dated 16 August 2010, the Custodian is entrusted with the safe custody of the assets of the Company. In particular, it carries out all usual duties relating to cash and securities and, in addition, may delegate such duties to sub-custodians. The Custodian will use reasonable care in the selection and appointment of sub-custodians.

The Custody Agreement commenced on 16 August 2010 and will continue in full force and effect for minimum period of five years from such date (the "Minimum Term"). After the expiry of the Minimum Term, the Custody Agreement may be terminated by the Custodian upon giving ninety days' notice in writing to the Company or by the Company upon giving thirty days' notice in writing to the Custodian. The Custody Agreement is subject to earlier termination by either party in the event of the other party's liquidation or insolvency. In the event that the Custodian terminates the Custody Agreement in the event of the Company's insolvency then the Company will be liable to pay to the Custodian an amount equal to the fees payable for the duration of the Minimum Term that has not yet been paid at the date of termination. No such payment is required if the Company terminates the Custody Agreement in the event of the Custodian's insolvency. The Company may also terminate with immediate effect if the Custodian commits an unremedied material breach of contract.

The Company will pay and the Custodian will receive a fee for its services under the Custody Agreement, together with the Custodian's reasonable out-of-pocket or incidental expenses. The amount payable by the Company is £17,000 per annum for the duration of the Minimum Term and is payable in monthly instalments. Any increase in fees must be agreed in writing between the parties. After the expiry of the Minimum Term a safekeeping fee of 0.3 basis points will be payable and transactions will be charged at £12 per transaction plus £15 for manual transactions.

The Custody Agreement contains provisions for the indemnification by the Company of the Custodian, the sub-custodians and their respective nominees, directors, officers, agents and employees (together, the "Custody Indemnified Party") against any costs, claims, losses, liabilities, damages, expenses, fines, penalties, taxes and other matters that may be imposed on, incurred by or asserted against the Custody Indemnified Party by reason of the Custody Indemnified Party acting pursuant to the Custody Agreement or by their status as a holder of records of securities, except to the extent that they result from the fraud, negligence or wilful default of the Custodian or from the action of the Custody Indemnified Party for which the Custodian is liable under the Custody Agreement.

## 7.3. **Facility Agreement**

Under the Facility Agreement between BNP Paribas and the Company dated 14 October 2010, BNP Paribas has agreed to make available a 364 day £15 million multi-currency revolving loan facility at a margin of 125 bps with a commitment fee of 50 bps. There is no arrangement fee. The Facility Agreement contains financial covenants which are: (a) that the loans should not exceed 20 per cent. of the net asset value (as defined); and (b) that the Eligible Assets Value exceeds the loans. The term "Eligible Assets Value" is defined to mean gilts, FTSE 100 constituents and FTSE 250 constituents and each is slightly discounted from their fair value to give a figure against which BNP Paribas is prepared to lend. No value is attributed to other assets. The Bank Facility is secured by a floating charge over the assets of the Company and will be repayable on 13 October 2011.

#### 7.4. **Repurchase Agreement**

The Repurchase Agreement between the Company and Winterflood Securities is dated 1 December 2010. Under this agreement, the parties agreed that the Company would pay an amount equal to the Tender Price multiplied by the number of Shares successfully tendered to an interest bearing account with the Receiving Agent in the name of the Company as directed by Winterflood Securities as soon as practicable following the calculation of the Tender Price. Winterflood Securities, as principal, purchased, on-market, at the Tender Price, Shares successfully tendered.

The Company agreed that, immediately following the purchase by Winterflood Securities of all Shares which it agreed to purchase under the terms of the Repurchase Agreement, the Company would purchase from Winterflood Securities such Shares.

The Repurchase Agreement contained certain representations, warranties and undertakings from Winterflood Securities in favour of the Company concerning its authority to enter into the agreement and to make the purchase of Shares pursuant thereto.

The Repurchase Agreement also contained representations and warranties from the Company in favour of Winterflood Securities and incorporated an indemnity in favour of Winterflood Securities in respect of any liability which it may suffer in relation to its performance under the Periodic Tender Offer.

7.5. The Placing Agreement as described more fully paragraph 8 of this Part 6 below.

7.6. If the Issue proceeds, the Company will enter into the Trust Deed, the principal terms of which are summarised in Part 3 of this document.

#### 8. **Placing Agreement**

The Placing Agreement dated 2 March 2011 between the Company, the Manager and Winterflood Securities pursuant to which Winterflood Securities has agreed, as agent for the Company, to use its reasonable endeavours to procure subscribers for the CULS.

The Placing Agreement provides, *inter alia*, for payment of a corporate finance and documentation fee of up to £75,000 by the Company to Winterflood Securities (together with VAT where applicable) and a commission of an amount equal to 1 per cent. of the Gross Proceeds of the Issue.

The Company will bear all other expenses of and incidental to the Placing and Open Offer, including the fees of the London Stock Exchange and the Financial Services Authority, printing costs, Registrar's and Receiving Agent's fees, and all legal and accounting fees of the Company and of Winterflood Securities.

The Placing Agreement contains certain customary warranties and indemnities by the Company in favour of Winterflood Securities and is conditional, *inter alia*, on:

- (i) the passing of the Resolution without any amendment;
- (ii) the Company and the Manager having complied with all of their respective obligations under the Placing Agreement which fall to be performed or satisfied on or prior to Admission;
- (iii) the Placing Agreement not having been terminated in accordance with its terms;
- (iv) the Minimum Net Proceeds not being less than £20 million or such other amount as the Company, and Winterflood Securities may agree in writing; and
- (v) Admission becoming effective not later than 8.00 a.m. on 29 March 2011 (or such later date as the Company and Winterflood Securities may agree, not being later than 29 April 2011).

Winterflood Securities may terminate the Placing Agreement in certain limited circumstances including, *inter alia*, if there is a fundamental change or development in economic, financial, political, diplomatic or other market conditions or any change, in any government regulation which, in Winterflood Securities' reasonable opinion (acting in good faith), is likely to be prejudicial to the Company or to the success of the Issue or to dealings in CULS.

## 9. Corporate Governance

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is suitable for an investment trust and which will enable the Company to comply with the UK Corporate Governance Code issued by the Financial Reporting Council and the AIC Code. Save as disclosed below, the Company complies with the provisions of the UK Corporate Governance Code and the AIC Code.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Corporate Governance Guide and in the preamble to the UK Corporate Governance Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment company.

### *Independence*

The Board consists of four non-executive Directors all of whom are considered wholly independent of the Company's Investment Manager and advisers. The Directors have a breadth of investment, commercial and professional experience relevant to the direction and control of the Company.

### *Senior independent director*

All Directors are equally responsible under the law for the proper conduct of the Company's affairs. The Directors are also responsible for ensuring that their policies and operations are in the best interests of the Shareholders and that the best interests of the creditors and suppliers to the Company are properly considered. David Woods has been designated as the "senior independent director" as recommended by the AIC Code. He is available to Shareholders if they have concerns which the Chairman or the Investment Manager have failed to resolve or where contacting the Chairman or Investment Manager is not appropriate.

### *Appointment and re-election*

Directors are selected and appointed by the Board as a whole functioning as a Nomination Committee. It is chaired by Donald MacDonald. There is no separate Nomination Committee as the Board is considered small relative to listed trading companies for the purposes of the AIC Code. The Directors are therefore responsible for reviewing the size, structure and skills of the Board and considering whether any changes are required or new appointments are necessary to meet the requirements of the Company's business or to maintain a balanced Board.

The Articles require that Directors submit themselves for re-election at least every three years. Any Director with more than nine years' service is required to stand for re-election at each annual general meeting. Further details are given at paragraph 5.2 of this Part 6.

### *Board and Directors' performance appraisal*

The Directors recognise the importance, in the terms of the AIC Code, of evaluating the performance of the Board as a whole and individual Directors. During the last Financial Year, the Directors underwent an appraisal process to evaluate the performance of the Board as a whole and of individual Directors. The results of the appraisal process were considered by the Board to be satisfactory.

### *The Audit and Management Engagement Committee*

The Board is supported by an Audit and Management Engagement Committee consisting of all of the Directors. The Committee has written terms of reference, which are reviewed annually and clearly define its responsibilities and duties.

The Audit and Management Engagement Committee meets at least twice a year to review the internal financial and non-financial controls, accounting policies and the contents of the interim and annual

reports to Shareholders. In addition, the Audit and Management Engagement Committee reviews the auditor's independence, objectivity and effectiveness, the quality of services of all the service providers to the Company and, together with the Investment Manager and company secretary, reviews the Company's compliance with the financial reporting and regulatory requirements. At each Audit and Management Engagement Committee meeting, a representative of the Investment Manager's internal audit and compliance teams is present. Representatives of Ernst & Young LLP, the Company's auditors, attend the Audit and Management Engagement Committee meeting at which the draft annual report and financial statements are considered.

The Audit and Management Engagement Committee is responsible to the Board for reviewing each aspect of the financial reporting process: the system of internal control and management of financial risks; the audit process; relationships with the external auditors; the Company's process for monitoring compliance with laws and regulations; its code of business conduct; and for making recommendations to the Board.

The Audit and Management Engagement Committee meets at least once a year to review the performance of the Investment Manager, the services provided by it and the Investment Management Agreement with it.

The Company does not have a separate remuneration committee as the Board as a whole fulfils the function of a remuneration committee under the auspices of the Nomination Committee.

### ***Internal audit function***

The Directors have reviewed the need for the Company to establish an internal audit function but consider that, as it is an investment company, such a function is not necessary.

## **10. Taxation**

The information below, which relates only to UK taxation, is applicable to the Company and (except where indicated) to persons who are resident or ordinarily resident in the UK and who hold shares as an investment. It is based on existing law and practice and is subject to any subsequent changes thereto. If any shareholder or prospective investor is in any doubt about his/her tax position, or if he or she may be subject to tax in a jurisdiction other than the UK, such person should consult his or her professional adviser.

### **10.1. *The Company***

The Directors intend to continue to conduct the affairs of the Company so as to satisfy the conditions for approval as an investment trust under Chapter 4 of Part 24 of the CTA 2010 and to apply, in respect of each accounting period, to HMRC for such approval. One of the requirements for approval as an investment trust is that the Company is not a close company. The Directors consider that the Company will not be a close company immediately following the Placing and the Open Offer. In respect of each accounting period for which approval is granted, the Company is exempt from UK taxation on its capital gains. The Company will, however, be liable to UK corporation tax on its income in the normal way.

### **10.2. *CULS***

#### **10.2.1. *Taxation of interest***

Under current tax legislation, while CULS are admitted to trading on the Main Market, payments of interest on CULS will be made by the Company without deduction at source of UK income tax. For individual CULS Holders, the amount of interest paid on CULS will form part of the recipient's income for the purposes of UK income tax. The provisions of the accrued income scheme may apply to individuals transferring CULS and to individuals to whom CULS are transferred. The charge to tax on income that may arise to the transferor, and the relief which may be allowed to the transferee, will be in respect of an amount representing interest on the CULS which has accrued since the preceding interest date. These amounts will be taken into account in calculating any chargeable gain or allowable loss arising on a disposal of the CULS.

Individual CULS Holders who are resident or ordinarily resident in the UK will be subject to UK income tax on the interest at the rate of 20 per cent. for basic rate taxpayers and 40 per cent. for higher rate taxpayers. Individuals should note that the Government has introduced, with effect from 6 April 2010, a tax rate of 50 per cent. for taxable non-savings and savings income above £150,000.

The UK tax treatment of a CULS Holder who is within the charge to UK corporation tax will depend on, amongst other things, the accounting treatment of CULS in the CULS Holder's hands, including whether or not the CULS are regarded as containing an "embedded derivative" as an accounting matter. CULS Holders within the charge to UK corporation tax should therefore consult their own accounting and tax advisers concerning the tax liabilities that may arise as a result of holding CULS, or as a result of the disposal or conversion of CULS.

#### 10.2.2. *Disposal and conversion of CULS*

The UK tax treatment of a CULS Holder within the charge to UK corporation tax on a disposal or conversion of CULS will depend on, among other things, the accounting treatment of the CULS in the individual entity accounts for the CULS Holder. In general, corporate CULS Holders within the charge to UK corporation tax will be subject to tax in any accounting period on all profits in relation to the CULS that are treated as arising in that accounting period. If, in accordance with applicable accounting practice, a CULS Holder treats its rights and liabilities under the CULS as divided between rights or liabilities under a loan (the "host contract") and rights under an embedded derivative (the "embedded derivative"), profits or losses in relation to the host contract (as computed for accounting purposes) will be subject to tax, or relieved, as income, whereas profits or losses in relation to the embedded derivative will be subject to tax, or relieved, under the principles governing corporation tax on chargeable gains.

UK resident or ordinarily resident individuals who convert their CULS into Ordinary Shares should not be deemed to have made a disposal of their CULS for the purposes of capital gains tax. Instead they will be treated as having acquired their Ordinary Shares at the same time and for the same base cost as their CULS. Such individuals may be subject to capital gains tax on a disposal of their CULS in the normal way.

#### 10.2.3. *Disposals*

Individuals resident or ordinarily resident in the UK will be subject to capital gains tax in the normal way on a disposal of the Ordinary Shares they receive as a result of converting their CULS.

Shareholders within the charge to UK corporation tax will be subject to corporation tax on gains in the normal way on a disposal of the Ordinary Shares they receive as a result of converting their CULS.

#### 10.2.4. *Provision of information*

CULS Holders who are individuals should note that HMRC has the power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the UK who either pays interest to, or receives interest for, the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the CULS Holders are resident for tax purposes.

### 10.3. *Dividends*

No tax will be withheld by the Company when it pays a dividend. However, individual shareholders resident in the UK (for tax purposes) will be entitled to a tax credit in respect of dividends paid by the Company at the rate of one-ninth of the cash dividend or 10 per cent. of the aggregate of the cash dividend and the associated tax credit ("gross dividend"). Such shareholders will be liable to income tax (if at all) on the gross dividend at, in the case of higher rate taxpayers, the dividend upper rate (32.5 per cent. in 2010-2011). The tax credit will be

offset against their total income tax liability. Taxpayers who, after taking into account dividend income, are liable to UK income tax at the basic rate will have no further liability to income tax. Individuals who are higher rate taxpayers will have to pay an additional 22.5 per cent. of the gross dividend. Individuals should note the new tax rate of 50 per cent. introduced on 6 April 2010. Individuals subject to this new rate will have to pay an additional 32.5 per cent. of the gross dividend.

Shareholders will generally not be able to reclaim tax credits in respect of dividends.

A company resident in the UK for tax purposes will not generally be liable to UK corporation tax on any dividend received from the Company. Dividends received by UK corporate shareholders are subject to UK corporation tax unless they fall within certain exempt classes. Provided the dividends do not derive from transactions where the purpose, or one of the main purposes, was to achieve a reduction in UK tax, dividends received by UK corporate shareholders should be exempt from UK corporation tax. Shareholders within the charge to UK corporation tax are advised to consult their own professional advisers in relation to the implications of the relevant legislation.

#### 10.4. *ISAs and Self Invested Personal Pensions (SIPPs)*

CULS (provided it has a remaining term of at least 5 years at the time of acquisition) are eligible to be held in a stocks and shares ISA, subject to applicable annual subscription limits (£10,200 for the 2010-2011 tax year).

CULS acquired through the Placing and pursuant to the Open Offer (and CULS acquired in the market) can be included in an ISA. Investments held in an ISA will be free of UK tax on both capital gains and income. The opportunity to invest in an ISA is restricted to certain UK resident individuals aged 18 or over. Individuals wishing to invest through an ISA should consult their professional advisers regarding their eligibility. In addition, CULS will constitute permitted investments for SIPPs.

The information contained in this document relating to taxation matters is a summary of the UK taxation matters which the Directors consider should be brought to the attention of shareholders and prospective investors and is based on the law and practice currently in force and is subject to changes therein.

**Shareholders who are subject to tax in a jurisdiction other than the UK or who are in any doubt as to the potential tax consequences of the Issue are strongly recommended to consult their own professional advisers before making any investment.**

**Shareholders and prospective investors should consult their professional advisers on the potential tax consequences of converting, acquiring, holding and disposing of securities in the Company.**

### 11. **Reports to Shareholders and net asset values**

The annual report and accounts of the Company are made up to 30 June in each year and are prepared in accordance with UK GAAP. Copies of the annual report and accounts are expected to be sent to Shareholders in September of each year and it is intended that the annual general meetings of the Company will be held in October of each year. Shareholders will also receive an unaudited interim report covering the first six months of each Financial Year.

The Net Asset Value of an Ordinary Share is calculated by the Investment Manager in accordance with the Company's accounting policies and is published daily through a Regulatory Information Service. The calculation of the Net Asset Value per Ordinary Share will only be suspended in circumstances where the underlying data necessary to value the investments of the Company cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service.

## **12. Mandatory bids, squeeze-out and sell-out rules**

### **12.1. *Mandatory bid***

The City Code applies to the Company. Under the City Code, if an acquisition of shares were to increase the aggregate holding of the acquirer and any parties acting in concert with it to shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties (if any) would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for shares not already owned by the acquirer or its concert parties (if any) at a price not less than the highest price paid for shares by the acquirer or its concert parties (if any) during the previous 12 months or (where there has been no acquisition of shares of the relevant class) at a comparable price agreed by the Panel. A similar obligation to make such a mandatory cash offer would also arise on the acquisition of shares by a person holding (together with its concert parties, if any) shares carrying at least 30 per cent. but not more than 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase the percentage of the aggregate voting rights held by the acquirer and its concert parties (if any).

### **12.2. *Squeeze-out rules***

Under the Act, if a person (the offeror) who has made a general offer to acquire the Ordinary Shares were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the Ordinary Shares to which the offer relates and not less than 90 per cent. of the voting rights carried by those shares, the offeror could then compulsorily acquire the remaining Ordinary Shares. In order to do so, the offeror would have to send a statutory notice to outstanding Ordinary Shareholders within three months of the last day on which the offer can be accepted telling them that the offeror wishes to acquire their Ordinary Shares and send a statutory declaration to the Company stating that the conditions for the giving of the notice have been satisfied. Six weeks later, the offeror must send a copy of the statutory notice together with, if the Ordinary Shares are registered, an executed instrument of transfer of the outstanding Shares in the offeror's favour to the Company and pay the consideration to the Company, which would hold the consideration on trust for outstanding Ordinary Shareholders. The consideration offered to those Ordinary Shareholders whose shares are compulsorily acquired must, in general, be the same as the consideration that was available under the general offer.

### **12.3. *Sell-out rules***

The Act gives minority Ordinary Shareholders a right to be bought out in certain circumstances by a person who has made a general offer as described in paragraph 12.2. If, at any time before the end of the period within which the general offer can be accepted, the offeror has acquired, or contracted to acquire, Ordinary Shares representing not less than 90 per cent. in value of all the Ordinary Shares and carrying not less than 90 per cent. of the voting rights in the Company, any Ordinary Shareholder to which the general offer relates who has not accepted the general offer can, by a written communication to the offeror, require it to acquire that shareholder's Ordinary Shares. The offeror is required to give each shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his rights, the offeror is entitled and bound to acquire the relevant Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

## **13. Conflicts of interest**

The Investment Manager and its officers and employees may be involved in other financial, investment or professional activities that may on occasion give rise to conflicts of interest with the Company. In particular, the Investment Manager currently does, and will continue to, provide investment management, investment advice or other services in relation to a number of companies, funds or accounts that may have similar investment policies to that of the Company and may receive *ad valorem* and/or performance related fees for doing so.

The Investment Manager may give advice or take action with respect to such other clients that differs from the advice given or actions taken with respect to the Company.

The Investment Manager will have regard to its obligations under the Investment Management Agreement or otherwise to act in the best interests of the Company, so far as is practicable having regard to its obligations to other clients or funds, should potential conflicts of interest arise. Having regard to these obligations, the Company may buy investments from or sell investments to the Investment Manager only on an arm's length basis. The Investment Manager will use reasonable efforts to ensure that the Company has the opportunity to participate in potential investments identified by the Investment Manager that fall within the Company's investment objective and policy on the best terms reasonably obtainable at the relevant time having regard to the interests of the Company. In so doing, the Investment Manager will take into consideration the appropriateness of investments for inclusion in the Company's portfolio, the level of uninvested cash held by the Company and the size of investments available such that allocations of investments which are de minimis in size will normally not be made. In the event that the Investment Manager is unable to resolve a significant conflict of interest on the basis described above, such matter will be referred to the Board for approval.

#### **14. Investment and other restrictions**

14.1. In addition to those restrictions set out in Part 2 of this document, in accordance with the requirements of the UK Listing Authority, the Company:

14.1.1. will not invest more than 10 per cent. in aggregate of the value of the total assets of the Company as at the time when Admission becomes effective in other investment companies or investment trusts which are listed on the Official List (except to the extent that those investment companies or investment trusts have published investment policies to invest no more than 15 per cent. of their total assets in other investment companies or investment trusts which are listed on the Official List);

14.1.2. will not conduct any trading activity which is significant in the context of the Company as a whole; and

14.1.3. will, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with its published investment policy.

14.2. As an investment trust, the Company will aim to comply with Chapter 4 of Part 24 of the CTA 2010 which requires that the Company's income is derived wholly or mainly from shares or securities and, in general, that no holding in a company, other than another investment trust, represents more than 15 per cent. by value of the Company's total investments.

14.3. In accordance with the requirements of the UK Listing Authority, the Company will not make any material change to its published investment policy without the approval of its shareholders by ordinary resolution passed at a general meeting of the Company. Such an alteration would be announced by the Company through a Regulatory Information Service.

14.4. In the event of any breach of the Company's investment policy or of the investment restrictions applicable to the Company, Shareholders will be informed of the actions to be taken by the Company and/or the Investment Manager (at the time of such a breach) by an announcement issued through a Regulatory Information Service.

#### **15. General**

15.1. The Company has been approved by HMRC as an investment trust under Chapter 4 of Part 24 of the CTA 2010 (and its predecessor legislation) in respect of all accounting periods since its incorporation up to and including the accounting period ended on 30 June 2010.

15.2. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Company is aware during the 12 months immediately preceding the date of this document which may have, or have had, in the recent past significant effects on the Company or the Company's financial position or profitability.



- 15.3. The Directors intend that the Company's income will be derived wholly or mainly from shares or securities in accordance with the requirements of Condition C in section 1159 of the CTA 2010.
- 15.4. The typical investors for whom the CULS are designed are institutional investors and professionally advised private investors seeking, over the longer-term, long-term capital growth from an investment principally in the equity and equity-related securities of UK quoted smaller companies. The CULS may also be suitable for investors who are financially sophisticated, non-advised private investors who are capable of evaluating the risks and merits of an investment in such securities and who have sufficient resources to bear any loss which may result from an investments in such securities.
- 15.5. If the Placing and Open Offer are fully subscribed, the costs and expenses of the Issue (including all advisers' fees and commissions, the fees of the Trustee, listing fees, printing and other ancillary costs) will be borne by the Company (i.e. effectively deducted from the assets attributable to Ordinary Shareholders) and are estimated to amount to approximately £530,000 (including VAT where applicable).
- 15.6. Winterflood Securities has given and not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they are included. Winterflood Securities is authorised and regulated by the FSA.
- 15.7. No person has been authorised to give any information or to make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised. This document does not constitute an offer to sell or the solicitation of an offer to buy any securities in any circumstances in which such offer or solicitation is unlawful. The delivery of this document shall not under any circumstances imply that the information contained herein is correct as at any time subsequent to the date hereof or that there has not been any change in the affairs of the Company since the date hereof.
- 15.8. The Company does not have any parent undertakings, subsidiaries or associated companies.
- 15.9. Certain information in this document has been sourced from third parties. Such information (which can be identified by the word "source" followed by the source) has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 15.10. The most recent unaudited NAV per Ordinary Share as at 28 February 2011 (the latest practicable date prior to the publication of this document) was 217.35p.
- 15.11. Save for the Investment Management Agreement summarised in paragraph 7.1 of this Part 6, the Company has not entered into any related party transactions at any time during the three Financial Years to 30 June 2010 in respect of which the Company has published statutory accounts, the six month period to 31 December 2010 in respect of which the Company has published a half yearly report or during the period from 1 January 2011 to 23 February 2011 (being the latest practicable date before publication of this document).
- 15.12. The ISIN (International Security Identification Number) of each class of the Company's securities is as follows: Ordinary Shares GB0002959582 and CULS GB00B3YX0W77.

## **16. Restrictions on Transfer**

### **16.1. General**

The distribution of this document and offer of Ordinary Shares and/or CULS in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in paragraph 7 of Part 4 of this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

## 16.2. *European Economic Area*

16.2.1. In relation to each of the EEA States (other than the UK) which has implemented the Prospectus Directive (each, a “relevant member state”), with effect from and including the date on which the Prospectus Directive was implemented in that relevant member state (the “relevant implementation date”) no Ordinary Shares or CULS have been offered or will be offered pursuant to an offer to the public in that relevant member state, except that with effect from and including the relevant implementation date, offers of Ordinary Shares and CULS may be made to the public from that relevant member state at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43 million; and (iii) an annual net turnover of more than €50 million as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive,

provided that no such Offer of Ordinary Shares and/or CULS shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a relevant member state and each person who initially acquires any Ordinary Shares and/or CULS or to whom any offer is made under the Issue will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

16.2.2. For the purpose of the expression an “offer of any Ordinary Shares or CULS to the public” in relation to any Ordinary Shares or CULS in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Issue and the terms of the Issue of any Ordinary Shares or CULS, so as to enable a potential investor to decide to purchase or subscribe for the Shares or CULS, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

## 17. **Disclosure requirements and notification of interest in shares**

Under Chapter 5 of the Disclosure and Transparency Rules, subject to certain limited expectations, a person must notify the Company (and, at the same time, the FSA) of the percentage of voting rights he holds (within two trading days) if he acquires or disposes of shares in the Company to which voting rights are attached and if, as a result of the acquisition or disposal, the percentage of voting rights which he holds as a shareholder (or, in certain cases, which he holds indirectly) or through his direct or indirect holding of certain types of financial instruments (or a combination of such holdings):

- 17.1. reaches, exceeds or falls below three per cent. and each one per cent. threshold thereafter; or
- 17.2. reaches, exceeds or falls below an applicable threshold in paragraph 17.1 of this Part 6 above as a result of events changing the breakdown of voting rights and on the basis of the total voting rights notified to the market by the Company.

Such notification must be made using the prescribed form TR1 available from the FSA’s website at <http://www.fsa.gov.uk>. Under the Disclosure and Transparency Rules, the Company must announce the notification to the public as soon as possible and in any event by not later than the end of the trading day following receipt of a notification in relation to voting rights.

The FSA may take enforcement action against a person holding voting rights who has not complied with Chapter 5 of the Disclosure and Transparency Rules.

## **18. Documents available for inspection**

Copies of the following documents may be inspected at the offices of Dickson Minto W.S. at Broadgate Tower, 20 Primrose Street, London EC2A 2EW during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) whilst the Placing and Open Offer remains open for acceptance and will also be available for inspection at the General Meeting:

- 18.1. memorandum and articles of association of the Company;
- 18.2. the audited accounts of the Company for the years ended 30 June 2008, 30 June 2009 and 30 June 2010 and the unaudited half yearly reports for the periods to 31 December 2009 and 31 December 2010;
- 18.3. the letters of appointment of the Directors referred to in paragraph 5.2 of this Part 6;
- 18.4. the written consent of Winterflood Securities referred to in paragraph 15.6 of this Part 6; and
- 18.5. this document.

## **19. Availability of Prospectus**

A copy of this document has been submitted to the National Storage Mechanism and is available for inspection at: [www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do) and may be obtained, free of charge, from:

Dickson Minto W.S.  
Broadgate Tower  
20 Primrose Street  
London  
EC2A 2EW

Neither the NSM website nor the Company's website nor the content of any website accessible from hyperlinks on those websites (or any other website) is (or is deemed to be) incorporated into, or forms (or is deemed to form) part of this Prospectus.

Dated 2 March 2011

## NOTICE OF GENERAL MEETING

# Standard Life UK Smaller Companies Trust PLC

*(incorporated and registered in Scotland under the Companies Act 1985 with registered number SC145455)  
(an investment company within the meaning of section 833 of the Companies Act 2006)*

**NOTICE IS HEREBY GIVEN** that a General Meeting (the “**General Meeting**”) of Standard Life UK Smaller Companies Trust PLC (the “**Company**”) will be held at 11.00 a.m. at 1 George Street, Edinburgh EH2 2LL on 28 March 2011 for the purpose of considering and, if thought fit, approving the following resolution which is proposed as a special resolution.

### SPECIAL RESOLUTION

“THAT subject to and conditional upon the proposed Issue of up to £25 million, in nominal value, of convertible unsecured loan stock 2018 (the “**CULS**”) as described in the circular to shareholders dated 2 March 2011 (the “**Circular**”) becoming unconditional in all respects (other than as regards any condition relating to the passing of this Resolution):

- (i) in addition to any existing authority granted to the directors of the Company (the “**Directors**”), the Directors be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the “**Act**”) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (such shares and rights together being “**Relevant Securities**”) up to a maximum nominal amount of £30 million of CULS for the purposes of the Issue and the Further CULS Issue each as described in the Circular, provided that such authorisation shall (unless previously revoked) expire on 27 March 2012, save that the Company may before the expiry of such authority make an offer or enter into an agreement which would or might require shares to be allotted or rights to be granted after the expiry of such authority and the Directors are authorised to allot shares or grant such rights in pursuance of such an offer or agreement as if the authority had not expired;
- (ii) in addition to any existing power and authority granted to the Directors, the Directors be and are hereby empowered in accordance with section 570 and 571 of the Act to grant and allot Relevant Securities for cash, pursuant to the authority conferred by sub-paragraph (i) of this Resolution, as if section 561(1) of the Act did not apply to any such grant of rights or allotments, provided that this power and authority shall be limited to the grant or allotment of Relevant Securities up to a maximum nominal amount of £17.5 million of CULS for the purposes of the Firm Placing and the Further CULS Issue each as described in the Circular and shall (unless previously revoked) expire on 27 March 2012 save that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement which would or might require Relevant Securities to be allotted after the expiry of such power and the Directors are authorised to allot Relevant Securities in pursuance of such an offer or agreement as if such power had not expired;
- (iii) the investment policy set out in the Circular be and is hereby adopted as the investment policy of the Company to the exclusion of all previous investment policies of the Company.”

By order of the Board

Aberdeen Asset Management PLC  
*Company Secretaries*

Standard Life UK Smaller Companies Trust PLC  
Registered Office:  
40 Princes Street  
Edinburgh  
EH2 2BY

Dated: 2 March 2011

#### Explanatory notes to the Notice of General Meeting:

1. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, as amended, only those Shareholders registered in the Register at 6.00 p.m. on 24 March 2011 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting (excluding non-working days)) shall be entitled to attend and/or vote at the General Meeting in respect of the number of Shares registered in their name at that time. Changes to entries on the Register after that time on 24 March 2011 shall be disregarded in determining the rights of any person to attend or vote at the General Meeting.
2. A Shareholder entitled to attend and vote at the General Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him or her, provided that if two or more proxies are appointed, each proxy must be appointed to exercise the rights attaching to different Shares. A proxy need not be a Shareholder of the Company. Completion and return of the Form of Proxy will not preclude Shareholders from attending or voting at the General Meeting, if they so wish. The number of votes cast by proxy for and against the Resolution will be communicated to Shareholders at or following the General Meeting and will be available on request. In the event that a Form of Proxy is returned without an indication as to how the proxy shall vote on the Resolution, the proxy will exercise his discretion as to whether, and if so how, he votes.
3. To be valid, the Form of Proxy, together with the power of attorney or other authority, if any, under which it is executed (or a notarially certified copy of such power of authority) must be deposited with the Company's agent, for this purpose being, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by post, as soon as possible and, in any event, not later than 11.00 a.m. on 24 March 2011 or such later time as the Company's directors may allow. A Form of Proxy is enclosed with this Notice. If you have any queries relating to the completion of the Form of Proxy, please contact Computershare Investor Services PLC on 0870 889 4076 or, if telephoning from outside the UK, on +44 870 889 4076. The helpline is available from 9.00 a.m. to 5.00 p.m. Monday to Friday (except bank holidays). Calls to the helpline are charged at approximately 8 pence per minute (including VAT) from a BT landline; other service providers' charges may vary. Please note that, for legal reasons, Computershare is only able to provide information contained in this document and information relating to the Company's register of members and is unable to give advice on the merits of the Issue or to provide legal, financial, tax or investment advice.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedure described in the CREST Manual and by logging on to the website [www.euroclear.com/CREST](http://www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Registrars, Computershare Investor Services plc (ID 3RA50), not later than 11.00 a.m. on 24 March 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. The right to appoint a proxy does not apply to persons whose Shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ("Nominated Persons"). Nominated Persons may have a right under an agreement with the member who holds the Shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if Nominated Persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the Shares as to the exercise of voting rights. The statements of the rights of Shareholders in relation to the appointment of proxies in notes 2 and 3 above does not apply to Nominated Persons. The rights described in these notes can only be exercised by Shareholders of the Company.
9. Where there are joint holders of any Share, any one of such persons may vote at any meeting, and if more than one of such persons is present at any meeting personally or by proxy, the holder whose name stands first in the Register shall alone be entitled to vote.
10. Any corporation which is a Shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a Shareholder provided that they do not do so in relation to the same Shares.
11. As at close of business on 28 February 2011 (being the latest practicable date prior to publication of this document), the Company's issued share capital comprised 63,722,556 Ordinary Shares of 25p each. The total number of voting rights in the Company as at 28 February 2011 was 63,722,556.
12. Information regarding the General Meeting, including information required by section 311 A of the Companies Act 2006, is available from the Company's website, [www.standardlifeinvestments.com/its](http://www.standardlifeinvestments.com/its).
13. Under section 319A of the Companies Act 2006, the Company must answer any question relating to the business being dealt with at the General Meeting put by a member attending the General Meeting unless:
  - (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - (b) the answer has already been given on a website in the form of an answer to a question; or
  - (c) it is undesirable in the interests of the Company on the good order of the meeting that the question be answered.
14. Shareholders are advised that, unless otherwise stated, any telephone number, website or e-mail address which may be set out in the Notice of General Meeting or in any related documents (including the Form of Proxy) is not to be used for the purposes of sending information or documents on, or otherwise communicating with the Company for any purposes other than those expressly stated.